Corporate Social Responsibility in India: An Overview

Seema G. Sharma

Recommended Citation

This Comment is brought to you for free and open access by the Law Journals at SMU Scholar. It has been accepted for inclusion in International Lawyer by an authorized administrator of SMU Scholar. For more information, please visit http://digitalrepository.smu.edu.
Corporate Social Responsibility in India: An Overview

Seema G. Sharma*

Abstract

The concept of Corporate Social Responsibility (CSR) has gained increased significance in recent years. The growing focus on CSR has changed the attitude of businesses all over the world, and India is not an exception. The concept of CSR is not new to India; historically speaking, social responsibility of companies is a well-established phenomenon in India, and the country has one of the world’s richest traditions of CSR. In its oldest forms, CSR in India included the concept of corporate philanthropy and the Gandhian Trusteeship model. But the liberalization of the Indian economy in the 1990s led to a fundamental shift from the philanthropy-based model to a multi-stakeholder approach whereby companies are deemed responsible for all stakeholders, including financial stakeholders, employees and the community. The liberalization of the economy also led to the increased presence of large global corporations such as Microsoft, IBM, and others on Indian soil, which thereby exposed India to a highly developed regime of CSR initiatives. Additionally, a strong desire to compete and succeed in the global economy drove Indian business enterprises to integrate CSR into a coherent and sustainable business strategy. These enterprises, both public and private, have realized that their long-term success depends on the satisfaction of their stakeholders, and that ignoring them could jeopardize the company’s future prospects in the community. This article discusses the concept of CSR as understood by Indian businesses in the past, and the changing interpretations of the concept in the age of globalization and expanding markets. The article further discusses the efforts toward community and social development made by both state-owned enterprises (SoEs) and private-sector businesses. After a detailed analysis, the article concludes that the future of CSR in India is bright, and that its importance will continue to grow even further given the increasing importance accorded to CSR worldwide, and India’s own realization that it needs CSR to achieve long-term sustainability in the world economy.

* Seema G. Sharma, JD, MBA, is the Associate Executive Director of the SMU Institute of International Banking and Finance.
I. Introduction

We have to choose between a global market driven only by calculation of short-term profit, and one which has a human face. Between a world which condemns a quarter of the human race to starvation and squalor, and one which offers everyone at least a chance of prosperity, in a healthy environment. Between a selfish free-for-all in which we ignore the fate of the losers, and a future in which the strong and successful accept their responsibilities, showing vision and leadership.

Kofi Annan, former UN Secretary General.

The notion of Corporate Social Responsibility (CSR) is on the rise all over the world, and in India as well. CSR is not new to India; in fact, historically speaking, CSR is a well-established phenomenon in the country, and India has one of the world's richest traditions of CSR. "In 1965, Lal Bahadur Shastri, then the prime minister of India, presided over a national meeting that issued the following declaration on the social responsibilities of business:"2

[A business has a] responsibility to itself, to its customers, workers, shareholders and the community . . . . [E]very enterprise, no matter how large or small, must, if it is to enjoy confidence and respect, seek actively to discharge its responsibilities in all directions . . . and not to one or two groups, such as shareholders or workers, at the expense of community and consumer. [A] business must be just and humane, as well as efficient and dynamic.3

In its oldest forms, corporate responsibility in India included the concept of corporate philanthropy and the Gandhian trusteeship model.4 Corporate philanthropy as practiced in India in the pre-independence era involved occasional charitable donations made by business houses.5 Additionally, "notions of generosity and trust, as advocated by Mahatma Gandhi and his followers served as an ideal for many business leaders both during pre and post-independence times."6 Over the years, CSR practices in India have evolved from notions of pure philanthropy and charity, to CSR practiced as a part of social development, to the multi-stakeholder approach that is the current global trend.7

The philanthropy first practiced by Indian businesses was initially rooted in religious belief and culture, but with the changing times, there has been a significant shift in the approach. This shift resulted in the emergence of four different models—the Trusteeship


3. Id.


5. Id. at 2.


7. See generally Kumar, supra note 4, at 1-4.
model propounded by Mahatma Gandhi, the Statist Model put forward by Nehru, the Liberal model by Friedman, and the Stakeholder model by R. Edward. These four frameworks exist simultaneously in India today.

II. Understanding CSR

Despite the growing awareness and popularity of the term CSR, there is no general consensus as to what it actually means. In fact, CSR is often used interchangeably with various other terms, such as corporate philanthropy, corporate citizenship, business sustainability, business ethics, and corporate governance. Although these other terms do not all mean the same thing, there is one underlying thread that connects them all—the understanding that companies have a responsibility not just toward shareholders, but also toward other stakeholders, such as "customers, employees, executives, non-executive board members, investors, lenders, vendors, suppliers, governments, NGOs, local communities, environmentalists, charities, indigenous people, foundations, religious groups and cultural organizations." All of these stakeholders are equally important to a corporation, and it should therefore strive with sincerity to fulfill the varied expectations of each.

[A corporation] has a role to play in treating its employees well, preserving the environment, developing sound corporate governance, supporting philanthropy, fostering human rights, respecting cultural differences and helping to promote fair trade, among others. All are meant to have a positive impact on the communities, cultures, societies and environments in which companies operate.

It is a known fact that a corporation is owned by shareholders who provide risk capital in expectation of a financial return. Hence, the primary goal of corporate management is to run the business profitably to maximize shareholder value in the form of dividend and appreciated stock prices. But this is an extremely narrow interpretation of profitability, and one which focuses on one stakeholder while ignoring the contribution of others in the success of the enterprise. Shareholders are important stakeholders as they are the ones who have invested their money in the financial equity. But a modern company has several types of equity in addition to financial equity. Investments in these other equities are made by a variety of stakeholders. For instance:

- Intellectual equity: Employees invest their ideas in improving technological processes, product quality, cost management, marketing techniques, and customer service. These initiatives usually go far beyond the call of normal duty for which they are compensated.

---

8. Id. at 1-2.
10. Id.
11. Id.
12. Id.
• Goodwill equity: The community around a firm invests its goodwill; it continues to support operations in spite of inconveniences it suffers in the form of, for example, environmental pollution, and traffic congestion.

• Growth equity: The government's investment is in the form of law and order, infrastructure development, and economic policies conducive to business growth.

• Knowledge equity: Educational institutions invest their expertise through their research and their students.\[14\]

In the presence of all these stakeholders, it is unjust to focus on one stakeholder, i.e. the shareholder. CSR is based on the idea that successful, profitable corporations should take responsibility for social issues and manage their business processes in a way that maximizes profits and stockholder wealth while also contributing to the resolution of social problems.\[15\] Corporations do not exist in isolation. Therefore, they should feel some level of responsibility for the community of which they are a part, and should work for the development and progress of that community and society at large. The idea of being a socially responsible company means recognizing obligations and going beyond simple compliance with the law. It is absolutely essential that corporations make sincere efforts to fulfill their obligations because development based solely on economic growth paradigms is unsustainable, and not conducive to corporate success.

Though the concept of CSR is immensely popular, and is accorded significant importance, in India today the practice of integrating social and environmental concerns into a corporation's business operations, and of contributing to the development of the local community and society at large remains a largely voluntary undertaking.\[16\] But the lack of laws recognizing or enforcing this conception of CSR has not kept corporations from committing themselves to it as a business concept. This makes sense, as:

[T]he modern, knowledge based corporation has very few tangible assets and 70-80% of its market valuation is an amalgamation of intangible assets: employees, reputation, brand, values, vision, patents, processes, licenses, designs, rights etc. With reputational capital being slow and difficult to build and easy to destroy, it makes sound business sense to invest in protecting the company's reputation and to actively manage risks that may impact it.\[17\]

III. Development of CSR in India

The development of CSR in India has paralleled India's historical development.\[18\] In the pre-industrial period prior to the 1850s, CSR was heavily influenced by cultural and religious tenets. As per the Vedic philosophy, the principal role of money was to serve the needs of society, and the best use of money was donation for the welfare of others. This

\[14\] Id. at 105.
\[15\] See generally JUNO CONSULTING, supra note 9.
\[16\] The Trade Council of Denmark, Corporate Social Responsibility, http://www.eksporttilindien.um.dk/en (Aug. 12, 2009), (follow "Export Counseling" hyperlink; then follow "Market Opportunities" hyperlink; then follow "Doing Business in India" hyperlink; then follow "Corporate Social Responsibility" hyperlink).
\[17\] JUNO CONSULTING, supra note 9, at 2.
\[18\] Tatjana Chaoud et al., Corporate Social and Environmental Responsibility in India - Assessing the UN Global Compact's Role 24-26 (2007).
thinking influenced merchants and business owners of that time period who committed themselves to charitable work such as building temples, schools, and hospitals, and providing relief in times of famine and epidemic for their personal satisfaction. Later, the British brought western industrialization to India, and under its influence, a few families from traditional merchant communities such as the Tata, Birla, Bajaj, Godrej, Shriram, Singhania, Modi, Mahindra, “who were strongly devoted to philanthropically motivated CSR," pioneered indigenous industrialization. These corporate philanthropists participated not only in the struggle for freedom, but also in the nation-building process thereafter. However, their charity was not purely altruistic: they had a commercial interest in supporting efforts to further the country’s industrial and social development. Business operations and CSR engagement in this period were based primarily on corporate self-regulation, though the charitable and philanthropic actions of corporations were mostly sporadic and were not followed consistently as part of a well thought-out, long-term business strategy. Additionally, these CSR practices focused on the external stakeholders only, such as communities and general social welfare bodies. This narrow focus obviously could not deliver the desired results, as the welfare of internal stakeholders, such as employees, were completely ignored.

India was a British colony for about 200 years, and the country’s struggle for independence dominated the second phase of Indian CSR (1914-1960). This phase was influenced fundamentally by “Gandhi’s theory of trusteeship, the aim of which was to consolidate and amplify social development.” In fact, many Indian academicians believe that the concept of CSR has its origin in Gandhi’s concept of trusteeship:

Gandhi felt that the capitalist[s] [should] be treated as trustees of the assets vested with them—provided they conduct themselves in a socially responsible way. This demanded that they manage the assets in the best possible way, take a part of the profit to sustain themselves and dedicate the remaining profit for the uplift of the society. Here ‘asset’ has a broader connotation: it can also include knowledge or skill.

“Gandhi’s influence prompted various Indian companies to play active roles in nation building and promoting socio-economic development during the twentieth century” by committing themselves to his reform programs, which included abolition of “untouchability,” the caste system, development of rural areas, and promotion of indigenous cottage industry. CSR practices until this time were heavily influenced by the ethical model of CSR, the origins of which “lie in the pioneering efforts 19th century corporate philanthropists such as the Cadbury brothers in England and the Tata family in India.”

\[
\begin{align*}
19. & \text{Id. at 26.} \\
20. & \text{Id.} \\
21. & \text{Id.} \\
22. & \text{Id.} \\
23. & \text{Id.} \\
24. & \text{DR. T. KARUNAKARAN, CORPORATE SOCIAL RESPONSIBILITY 1 (2008), available at \url{http://www.tafva.org/pdf_word/Corporate Social Responsibility.pdf}.} \\
25. & \text{KUMAR, supra note 4, at 2.} \\
26. & \text{A model heavily influenced by moral values.} \\
27. & \text{KUMAR, supra note 4, at 1.}
\end{align*}
\]
Post-independence India followed the “mixed economy” model, which incorporated aspects of capitalism and socialism, and under which both the public and private sectors coexist successfully. The mixed economy model was expected to be the solution to the economic and social challenges that the country faced immediately following independence, when a majority of the population was living in abject poverty. The government’s efforts were directed toward providing socially just economic growth, which led to the emergence of public sector undertakings (PSUs) and extensive legislation on labor and environmental standards. Jawaharlal Nehru propounded the “Statist” model of CSR in post-independent India, under which sustainability practices and policies of SoEs were featured prominently. In this context, CSR was mainly characterized by legal regulation of business activities and/or promotion of PSUs. Under this model, “elements of corporate responsibility, especially those relating to community and worker relationships, were enshrined in labor law and management principles.” SoEs in India continue to follow this philosophy today.

While efforts during this period were made primarily to promote the PSUs that were to play a critical role in nation building, the private sector experienced a set-back in the “regime of high taxes, quota, and license system,” that resulted in gross corporate malpractice. Furthermore, the high expectations from the PSUs came crashing down when they achieved only limited success in tackling developmental challenges. Consequently, the need for the private sector to step forward and contribute to socioeconomic development was felt strongly.

An initial and cautious attempt at reconciliation was made by Indian academics, politicians and businessmen at a national workshop on CSR in 1965. According to the resulting agenda, businesses were to play their parts as respectable corporate citizens, and the call went out for regular stakeholder dialogues, social accountability and transparency. Despite these progressive acknowledgements, this approach to CSR did not materialize at that time.

India’s post-independence economic strategy was both “inward-looking and highly interventionist,” which resulted in sluggish growth. The country underwent a major currency crisis in 1990-91, and was in a precarious position due to its rising “current account deficits and greater reliance on commercial external financing.” The financial crisis forced India to deregulate and liberalize its economy in order to achieve domestic stability and to become competitive in the global market. The wave of globalization had swept the world, and India was getting ready to ride it. As a result of internal economic reforms and the globalization of the world economy, India experienced a striking economic boom, with a growth rate of eight percent or more. India’s post-liberalization phase has seen a

28. Chahoud et al., supra note 18, at 27.
29. Id.
30. Kumar, supra note 4, at 2.
31. Id.
32. Chahoud et al., supra note 18, at 27.
33. Id. at 28.
35. Id. at 402.
shift from the philanthropy-based model of CSR to a more liberal, "companies are solely responsible to their owners . . . [model,] to the current stakeholder-participation based model." However, the country's rapid economic growth did not lead to a reduction in philanthropic donations; on the contrary, "the increased profitability also increased business willingness as well as ability to give, along with a surge in public and government expectations of businesses."

Additionally, "the rise of globalization has . . . brought with it a growing consensus that with increasing economic rights, business also has a growing range of social obligations." Hence, "Indian companies and stakeholders began abandoning traditional philanthropic engagement and, to some extent, integrated CSR into a coherent and sustainable business strategy, partly adopting the multi-stakeholder approach."

This view is often associated with R. Edward Freeman, whose seminal analysis of the stakeholder approach to strategic management in 1984 brought stakeholding into the mainstream of management literature. According to Freeman, "a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives."

IV. CSR of Public Sector Undertakings (PSUs)

Jawaharlal Nehru envisioned a mixed economy in which the government would control nearly all key areas of the country's economy, either centrally or on a state-by-state basis, and promote social development by serving public interests. Nehru's espousal of state-sponsored economic development saw the rise of SOEs, more commonly known as PSUs in India, which were to be tools of social development. PSUs once played a critical role in nation building, and are still considered the jewels of Indian industrial development. Today, India has a large public sector with several large corporations operating in various sectors like heavy industries, mining, steel, shipping, aviation, petroleum, and equipment manufacturing. There are approximately 300 central PSUs and probably a few thousand at the state and municipal level, and all of these enterprises feel a strong commitment to social causes despite the onslaught of privatization in the country. Some of the major PSUs in the country are: Bharat Heavy Electrical Limited (BHEL), National Thermal Power Corporation Limited (NTPC), and Oil and Natural Gas Corporation Limited (ONGC).

Indian PSUs have a long tradition of CSR, and their contribution to the development of undeveloped or under-developed regions cannot be ignored. For a long time after India's independence, these PSUs made relentless efforts to reduce mass unemployment by creating job opportunities and providing healthy working conditions, job security, health care benefits, and education benefits to its employees. Also, employees were cared for even after retirement through pension programs.

36. KUMAR, supra note 4, at 3 (Milton Friedman challenged the very notion of corporate responsibility for anything other than the economic bottom line).
37. CHAHOUND ET AL., supra note 18, at 28.
38. KUMAR, supra note 4, at 3.
39. CHAHOUND ET AL., supra note 18, at 28.
40. KUMAR, supra note 4, at 3.
However, rising corruption, management inefficiencies, overstaffing (without the due regard to their economic viability, many governments treated SOEs as easy conduits for job creation and a convenient vehicle for patronage distribution), the inflation and rising current account deficits of the 80s exposed serious ‘government failures’ and the limits of SOEs, as the major players of economic development.41

As a result of these failures, large-scale privatizations of PSUs were undertaken in the 1980s and 1990s, which resulted in a significant reduction in the number of PSUs in the country. Despite these reductions, PSUs continue to have a pronounced presence and are an important segment of the economy, accounting for more than fifty percent of gross domestic capital formation and providing 8.1% of the nation’s employment. Their importance also stems from the fact that whereas market-based reforms lead to wealth generation, they also result in the ever-widening gap between rich and poor. In a country where even today a large portion of the population lives below the poverty line, such a gap can be a cause of severe distress and social unrest. The government, through its strong and successful public sector, has been able to lead by example and demonstrate ways to optimize economic growth in a socially just manner.

Furthermore, the PSUs in India are very much in tune with changing times, and have since adjusted their operating style to stay competitive and successful in domestic and international markets. Some of the PSUs such as ONGC, NTPC, BHEL, and Indian Oil Corporation (IOC) are good examples of how these enterprises have successfully evolved into organizations that can meet the challenges of market competition successfully while also contributing effectively toward social development. A good indication of their success is that their stock prices are among the best in the market, and they make it to the list of top companies that are using their corporate resources, core competencies, and funds to benefit the community. For example, ONGC and NTPC were finalists for the BW-FICCI-SEDF CSR Awards of 2007 along with other private sector corporate giants like Mahindra and Mahindra, Tata Tea, and Apollo Tyres; and NTPC walked away with the second runner-up award. NTPC has a comprehensive CSR policy and has committed to allocate 0.5% of its after-tax profits to CSR.

V. Beginning of a New Era of Multinational Corporations (MNCs)

The market liberalizations process, which began in 1991, heralded a new era of change in India. The abolition of the License Raj, the reduction of import tariffs, and the initial opening of the country to foreign direct investment set the ball rolling for India’s emergence as one of the most vibrant economies in the world. More and more global MNCs were, and still continue to be, attracted to India for production, manufacturing and the provision of services. The increased presence of large global corporations such as IBM, Microsoft and others on Indian soil has exposed India to a highly-developed regime of CSR initiatives based on the multi-stakeholder models. “The success and effectiveness of these programs had a ‘rub-off’ effect on Indian enterprises, which were also operating in

the same market, in their approach to corporate social responsibility initiatives."\(^{42}\) Furthermore, as a result of the economic reforms of 1991, not only did India become a destination for global MNCs, but many Indian firms also slowly but steadily ventured into the global arena, leading to the emergence of Indian multinational companies. Today, companies like Tata Group, Wipro, Infosys, and Ranbaxy are globally competitive companies that have successfully grown beyond India. Tata Motors Ltd. recently acquired Jaguar and Land Rover, both well-known international luxury brand names, and drew the attention of the world community toward India Inc., which is making serious efforts toward globalization. It is interesting to note that:

[T]he number of Indian companies that are investing abroad has been steadily growing ever since the Tata Group successfully acquired UK’s Tetley Tea for $430 million four years ago [2004]. According to KPMG, Indian companies shelled out $1.7 billion in the first eight months of 2005 for acquiring 62 overseas companies.\(^{43}\)

Furthermore, “[t]he acquisition binge further intensified with Tata Steel’s $13.6 billion takeover in 2007 of Corus, the British steel company.”\(^{44}\) Another example was when “Ranbaxy, one of India’s top pharmaceutical companies, which has spent $500 million acquiring 14 companies abroad since 2004, joined the bidding for the generics business of Merck, a German pharmaceutical company, at about $5 billion.”\(^{45}\) And this is only the beginning of India Inc. making its mark in the global arena.

A. CSR OF INDIAN MULTINATIONAL CORPORATIONS

Although India has a large, well-diversified public sector, it also has a long tradition of private enterprise, including several large companies in the private sector. For a long time after India established its independence in 1947, “Indian policy-makers stuck to a path of centralized economic planning accompanied by extensive regulatory controls over the economy. The strategy was based on an ‘inward-looking import substitution’ model of development.”\(^{46}\) This strategy did not work successfully for very long, and the country suffered a tremendous setback in 1991 when it was hit by twin crises – “an unmanageable balance of payments crisis and a socially intolerably high rate of inflation that [was] building up in the 1980s and climaxed in 1990-91.”\(^{47}\) The Indian government, under the pressure of these economic crises, was forced to take drastic measures to revamp the economy, and consequently instituted massive economic reforms. These economic reforms, enunciated in 1991 by Manmohan Singh, the current Prime Minister of India, under the leadership of then-prime minister Narsimha Rao’s government, put India on the path of


\(^{44}\) Id.

\(^{45}\) Id.


\(^{47}\) Id.
privatization and liberalization in order to integrate its national economy with the global economy. This was a significant change for India as these “new economic policies radically departed from the economic policies and regulatory framework pursued in India during the previous forty years [1951-91].” In the wake of these reforms, India witnessed accelerated economic growth as its private sector flourished, and the country opened its doors to international investment and trade opportunities. In fact, a significant driving force behind the economic reforms of 1991 was the desire to make India attractive to foreign investors whose investments would pave the way for prosperity in the country.

As was the case earlier:

The thrust of the reforms in all areas has been to open India’s markets to international competition, remove exchange rate controls, encourage private investment and participation in industry and, in the finance markets, to liberalise access to foreign capital and to ensure that foreign investment is not penalized merely for being foreign.

Whereas on one hand, deregulation and economic liberalization made India an attractive destination for foreign MNCs, on the other hand it also facilitated the growth of India’s own MNCs. These MNCs today are internationally competitive, and are meeting the challenges of global competition successfully. More and more companies that have global aspirations are looking into investment opportunities outside of India now. In fact, Tata Steel Global announced recently that it is preparing to invest $1 billion in coal and iron ore mines abroad. Indian corporations desirous of growing beyond India and succeeding in a highly-competitive and challenging global economy have also adopted international standards, such as ISO 14000, SA 8000, AA 100, as well as codes formulated by the OECD and the UN Global Compact.

One of the oldest business groups in India, the Tata Group, has operations in every major international market, and

[d]ifferent Tata companies are increasingly investing in assets overseas through Greenfield projects (such as in South Africa, Bangladesh and Iran), joint ventures (in South Africa, Morocco and China) and acquisitions . . . [O]ver the past eight years, the group has made overseas acquisitions of $18 billion. Among the bigger deals on this front have been Tetley, Brunner Mond, Corus, Jaguar and Land Rover in the UK, Daewoo Commercial Vehicles in South Korea, NatSteel in Singapore, and Tyco Global Network and General Chemical in the [United States].

Tata Group’s founder, J.N. Tata, heralded the wave of CSR in India in the late 19th century long before it made its way to the center stage of the world economy. Tata observed, “[i]n a free enterprise, the community is not just another stakeholder in the busi-

48. Id. at 262.
49. Trade Policy/External Sector; Industrial Policy; Infrastructure Sector Policies; Disinvestment/Privatization Policies; the Financial Sector; and in Policies for Attracting Foreign Direct Investment.
50. WADHVA, supra note 46, at 266.
ness, but is, in fact, the very purpose of its existence." Following its founder's vision to remain socially responsible, the group has incorporated CSR into its business processes and overall strategy. Tata Steel, a subsidiary of Tata Group, included CSR in its Articles of Association in 1973, and today, the Tata Council for Community Initiatives (TCCI) provides the superstructure for CSR efforts across the group while the Tata Index for Sustainability "measures and improves the social upliftment programs that the group enterprises undertake." The group is truly committed to national and global CSR principles as it grows from a domestic player to a global enterprise, and is the first Indian company to publish a Corporate Sustainability Report as per GRI guidelines. It is committed to setting aside twelve to fourteen percent of profits after tax (PAT) for welfare purposes, and in 2006-07, the group allocated US $60.7 million toward social welfare, environmental, and other CSR-driven projects.

The Tata Group is one of many other Indian companies, such as the Birla Group, Bajaj Auto, Godrej, Hindalco, Reliance and the Mahindra Group, that is seriously engaged in CSR. The Mahindra Group is worth US$6.7 billion, and is among the top ten industrial houses in India. The group also has a strong global presence, and is among the top three tractor manufacturers in the world. Its strong commitment to CSR is well-recognized, and the group was recently awarded the Bombay Chamber Good Corporate Citizen Award for 2007-08. On the occasion of its 60th anniversary, the group "renewed its commitment to CSR and pledged amounts not exceeding 1% of its profit after tax (PAT) on a yearly basis for the Company's CSR initiatives, largely to benefit the socially and economically disadvantaged sections of society."

While these groups are good examples to follow, India still has a long way to go. This is evident from the fact that although there is a shift in the perception of CSR from traditional philanthropy toward sustainable business, philanthropic patterns remain widespread in many Indian companies. Even today, donations remain the main technique of CSR, with a large number of companies writing checks toward fulfillment of their CSR responsibilities rather than using their core competencies to benefit society, or incorporating CSR as part of their business strategy for sustainable development. However, the

53. "We recognize that sustainable business development includes environmental and social considerations as part of development cost and is part of long-term business survival and growth. Environmental and social considerations have a strategic position in outcomes and purpose of the business—as bottom lines. The adoption of the triple bottom line concept is an explicit integration of human development considerations in business processes. In Tata companies we encourage the management to make a declaration of policy, strategy and budgets for environment and community development, and run activities as part of a non-negotiable minimum programme aimed at generating the reputation for the Tata Brand." KUMAR, supra note 4, at 6.
56. Id.
58. Id. at 8.
59. CHAHOUĐ ET AL., supra note 18, at 3.
wave of globalization has left no one untouched, and a desire to maintain competitiveness in the present as well as in the future will force these companies to reevaluate their policies, and integrate CSR into their business operations to remain in sync with current trends.

B. MULTINATIONAL CORPORATIONS IN INDIA AND CSR

Multinational corporations play a leading role in the world economy. Most large MNCs today “have annual turnovers higher than that of the GDP of a significant number of less developed countries (LDCs) put together;”60 hence, they “have a significant role to play in promoting sustainable development and alleviating global poverty.”61 With the amount of resources at their disposal, both in the form of finances and human capital, there is an expectation that these corporations should recognize that their responsibility is not limited to the shareholders, but also extends to individuals, communities, society at large and anyone who is directly or indirectly affected by their operations. Furthermore, they not only possess the potential and resources, but also the power to be persuasive and heard; hence, the implementation of socially responsible policies by MNCs is critical to sustainable development.

Until the early 1990s the attractiveness of foreign investment in less developed countries and the yet immature western consumer public allowed MNEs to bribe, perform illegal pricing transfers, participate in or be complicit in human rights violation, disrespect fundamental labor rights, etc., since neither the national law of the parent company nor international law could reach into the domestic affairs of other States. The rapid growth in telecommunications, human rights activism, and increased consumer awareness led companies and corporate lawyers to contemplate the significance of stakeholders other than shareholders.62

MNCs were under tremendous pressure to “reevaluate their operational processes and managerial mechanisms” to demonstrate a responsible behavior in order to have a good brand image which would boost their profitability and ensure long-term success of their operations.63

The economic reforms of 1991 and India’s continued and strong commitment to the reform process have resulted in the country being perceived as an emerging world force and an attractive foreign investment destination in the world. A 2007 study conducted by

61. Id. at 345.
62. Id.
63. Id.
management consultant AT Kearney showed that India is the second most desirable destination in the world for foreign direct investment (FDI) after China. The highly diversified Indian economy has shown rapid growth and remarkable resilience since it first opened its doors to foreign trade and investment in 1991. FDI inflows have seen tremendous increases, and have risen 250% – from $6.7 billion in 2005 to $16.9 billion in 2006. In the coming years, as more multinational corporations develop their international expansion strategies, they will not be able to ignore the presence of India on the global scene as it becomes a stronger emerging market. India enjoys substantial investments from global corporations like Microsoft, IBM, Coca-Cola, Pepsi, Johnson & Johnson, Proctor and Gamble, Nestle, and Nokia. Moreover, these corporations have a significant presence in the country. The success stories of these companies, and many more like them in the country’s dynamic markets, will bring more corporations to Indian soil. India can benefit from the presence of these companies as it continues to face challenges in the areas of social and environmental development, and these companies can accelerate the process of development. As is evident, the country’s “rapid economic growth has not automatically translated into development of the country and improved living conditions for the population.” MNCs that possess the resources necessary to commence and sustain a commitment to CSR can contribute to the development process in the country by pursuing projects from which the local community can benefit. A good example on point is Microsoft Corporation India Private Limited, a wholly owned subsidiary of the Microsoft Corporation, which has been operating in India since 1990 and employs over three thousand people in its several offices across the country. Microsoft India is extensively involved in CSR projects, and launched Project Jyoti in 2003. Project Jyoti aligns with Microsoft's global program—Unlimited Potential, wherein the company makes a long-term investment of more than US $1 billion “to aid technical skills training and lifelong learning for communities around the world.” India has also benefitted from the work of the Bill & Melinda Gates Foundation, especially in the area of healthcare. The foundation established Avahan – an HIV prevention initiative – in 2003. Avahan has committed US $258 million to prevent the further spread of HIV/AIDS in the country. Similarly, Intel and IBM have contributed significantly, and are actively involved in a variety of CSR projects. Intel’s Outreach Program has been working to increase literacy with a special focus on science, mathemat-

65. Id. at 5.
67. Palmqvist, supra note 6, at 12.
68. Press Release, Microsoft, Microsoft Announces Additional Grants Worth Eight Crores To Extend It Skills To Underserved Rural Communities (April 27, 2006) (on file with author).
69. Id. at 5.
70. Id.
72. Id.
ics, and computer literacy. These MNCs have learned to successfully integrate CSR into a sustainable business strategy, and Indian companies can at least start by emulating their practices because to a large extent, even today, a good number of companies confuse CSR with corporate philanthropy and have not yet realized the competitive edge that the adoption of CSR as an integral part of business has to offer.

But, the adoption of CSR strategies is not simple even for these large successful MNCs, and it comes with a whole new set of challenges. The CSR strategies of these international companies “often include policies regarding the internal structure and working conditions of the company and its subcontractors, with the code of conduct as the prime instrument for control and compliance.” This becomes a cause of conflict because “affairs that were earlier considered domestic and confined to the individual supplier come under scrutiny and control of the international buyers, which often originate from the Western business community.” The changed attitude of international companies as a result of compliance with CSR and ethics-driven codes of conduct has marked “a new phase in the relationship between the suppliers and the international companies—the buyers—where the buyers’ demands on the suppliers extend beyond quality control, on-time deliveries and price competitiveness.”

Recently, Gap Inc., one of the world’s largest clothing retailers, was severely criticized after it was accused of working with subcontractors in India that were using child labor to make clothes. The investigations revealed that children as young as ten years old were working in terrible conditions in a sweatshop in India. Gap took immediate action, ending its relationship with the suppliers who were using child labor via an unauthorized subcontractor. The garments in question were withdrawn from sale. Gap stated that it would not allow any kind of impropriety at any level in its value chain, and would not work with suppliers who violated their policy. This created considerable unhappiness among the suppliers. Certain suppliers saw the introduction of the CSR policies as a non-tariff barrier imposed by the Western business community that prevented local suppliers from focusing on price competitiveness. The suppliers felt that adhering to these policies and codes of conduct translated into increased costs and investments for them. Furthermore, the increased expenses would have forced them to charge more, which might have eventually resulted in loss of customers. Either way, the suppliers could not have survived in such a situation. But as every problem brings its own solution, this problem is not without its solution either. The international companies that have the requisite resources, skills, and knowledge can assist local suppliers in developing a positive and embracing attitude toward CSR by emphasizing the positive benefits and financial advantages that could be to gained. This is extremely important to the international companies as

73. Palmqvist, supra note 6, at 31.
74. Id. at 35.
75. Id.
77. Id.
78. Id.
79. Id.
well because even they cannot afford to risk their brands and reputation if CSR policies are not consistently followed in their value chains. Hence, efforts on the part of these companies will only lead them to a win-win situation for all stakeholders. In fact, persistence on the part of international companies has paid off, as “the suppliers' initial reluctance has increasingly changed in favor of a more understanding and positive approach,” and they are “increasingly gaining a more long-term and sustainable vision regarding their businesses.”

VI. Conclusion / Recommendations

CSR, as it was practiced in India many years ago, has undergone a transformation as a result of its exposure to the Western approach pursued by transnational corporations on Indian soil. Another reason for the change in that approach can be attributed to Indian companies venturing into the global arena to compete with the rest of the world. The trends followed world-wide have not only created awareness, but have also put pressure on Indian companies to reevaluate their CSR endeavors and to align them with the global trends. Though corporate philanthropy and community development still remain a strong aspect of India's CSR, globalization has led to the emergence of the multi-stakeholder approach. Under such an approach, companies are responsible for all stakeholders, a term that includes employees and both community and financial stakeholders. This approach requires that CSR be integrated into a sustainable business strategy. “The key to being more ‘sustainable’ is for a business to adopt, demonstrate, and practice more holistic approaches to business, where financial drivers together with sustainable development performance (i.e. social equity, environmental protection, and economic growth) are incorporated into mainstream business strategy and embedded in organizational values.”

“Triple Bottom Line” or “Triple P—people, planet and profit” is the mantra of the day for success. Indians have huge expectations for companies, both global and domestic, and would like them to step forward and take responsibility in the societies or communities in which they are operating by adopting responsible practices. “In addition to providing good quality products at reasonable prices, companies should strive to make their operations environmentally sound, adhere to high labor standards, reduce human rights abuses, and mitigate poverty.” Adoption of these practices is critical to the businesses because business cannot survive, let alone succeed, in a society that fails. Moreover, public acceptance of the operations of any business, particularly in an alien society, often determines the success of the corporation; and acceptance will come only when the company in question is seen as having empathy for the aspirations and values of the society in which it functions. Investors now often consider the social performance of the company when making investment decisions. They do not want to put their money into the operations of a corporation that is neglecting its social responsibility. Hence, the social report card of the corporation has become an important factor in attracting potential investors. Additionally, even though the public expectations in India of the corporations might seem excessive at first, they are not too different from the changes in the attitude of people that are taking place elsewhere in the world. These expectations are in no way unreasonable or

81. Palmqvist, supra note 6, at 37.
82. Kumar, supra note 4, at 19.
83. Id. at 20-21.
unjustified because the socioeconomic condition of India is such that "CSR in India has considerable potential for improving corporate environmental and social conduct," and the corporations have the resources to contribute and make a difference. That being said, the contribution does not have to be substantial, and it is not simply the responsibility of large and international companies with enormous resources at their disposal. Small and medium-sized companies can also chip in, even if in a limited way. The idea is to have corporations feel responsible, and adopt a more liable and open approach to the market and to concerned stakeholders by integrating CSR into their business strategies, discouraging abusive practices, and making sincere efforts, irrespective of the size or volume them, to promote community and social development. For corporations to be able to accomplish this objective, I recommend the following measures:

a. **Integrate CSR into business strategy as opposed to practicing sporadic corporate philanthropy:** In the age of globalization and the perpetual expansion of international markets, it is critical that India open itself to the global trends and align its CSR initiatives with those trends by integrating CSR into a sustainable business strategy. Corporations can no longer afford to write checks and donate money sporadically to a religious or charitable cause without having any concrete plan for CSR. The policies, programs, and practices related to CSR should be part and parcel of business operations and processes, and everyone in the organization should understand the company's philosophy on CSR to be supportive of the efforts made by the organization. CSR should not be seen as imposing a burden, adding cost to the bottom line, or taking away from the profits of the company. It should be seen as critical for protecting the company's reputation, defending against attacks, and building a competitive edge. In fact, in difficult times corporations can fall back on their good reputation built through CSR to remain in a positive light in the eyes of the public.

b. **Promote multi-stakeholder approach, with focus on both internal and external stakeholders:** CSR is strictly about contributing and giving back to the society. A multi-stakeholder approach involves all of the company's stakeholders in the development and implementation of its CSR initiatives. In India, CSR initiatives are mainly focused on external stakeholders, such as the community; internal stakeholders, such as employees, are mostly ignored. In fact, "company executives do not view unemployment and underemployment, unfair and unsafe workplaces, or personal rights and freedom as being major causes for worry." It is important for companies to realize that CSR initiatives cannot be successful in piecemeal, and that all stakeholders are equally important. "Internal and external CSR should be seen as complementary if the sustainable development of the CSR policies is to be achieved."

c. **Spreading CSR along the supply chain:** Consumers increasingly demand that companies act responsibly, and that their responsible practices involve all of the stakeholders in their value chain. Violations of law or abusive practices occurring in the facilities of the suppliers bring as much negative publicity to the corporation as

---

84. CHAHOUD ET AL., supra note 18, at 96.
85. KUMAR, supra note 4, at 9-10.
86. CHAHOUD ET AL., supra note 18, at 18-19.
its own acts. Consumers consciously avoid associating themselves with products or services of such corporations. Public acceptance of the corporation in such an environment is only possible if there is a sincere effort on the part of the corporation to work toward the development of society at large. This can be achieved not just by being involved in developmental projects, but also by ensuring that no violation of CSR practices occurs at the level of suppliers in the value chain. In most circumstances, the suppliers do not have resources to stay in compliance with the big corporations’ CSR initiatives. Hence, sharing their knowledge and relevant experiences with the suppliers, extending a helping hand to guide them in the implementation of the CSR policies, training them to comply with standards, and providing them with incentives to remain on the right track can prove beneficial to corporations as well as their suppliers. A good example of such incentives would be an assurance of a long-term business relationship as long as the suppliers stay committed to the corporation’s CSR policies and comply with standards. An awareness of the positive advantages and financial benefits that can result from staying CSR-compliant will surely keep them motivated.

d. **Promote Public Private Partnerships (PPP):** PPPs have paved the way for successful CSR initiatives elsewhere in the world, and can prove beneficial to India as well. Public-private initiatives are understood as a system in which a government service is funded and operated through a partnership between the government and one or more private sector companies with the aim of stimulating economic growth and social development. An increasing number of governments are turning to the private sector to provide services that were once rendered by the public sector, or were in the domain of the government’s social responsibilities. With the liberalization of the economy and the emergence of a strong private sector, it is becoming increasingly clear that all stakeholders (the government, private sector, development agencies, NGOs, and other constituents of civil society) will need to work together to address the severe social and environmental challenges that India is facing; there are limits to what the government can accomplish on its own. Hence, PPPs are an optimal solution because their knowledge and relevant experiences can be beneficial to both the government and the private sector. The government gets a much-needed infusion of capital and skilled human resources to initiate newer initiatives and run the existing ones more efficiently, and the private sector gets necessary governmental backing and hence, credibility to be a part of developmental programs. Some examples of successful PPPs in India include adoption of public healthcare facilities by corporations, the Malaria Control Society in Gujarat hiring private agencies for information dissemination, the government of Orissa allowing an NGO to run some of its primary healthcare centers, and the government of India engaging private practitioners to run the Tuberculosis control program at fourteen sites across the country.

Multinational corporations are also looking at PPPs as a tremendous opportunity to promote CSR initiatives. A good example of this is Microsoft Inc., which through Avahan, is collaborating with the Indian government and other partners to stop the spread of HIV/AIDS by expanding access to prevention programs in Indian states where

---

87. The private sector’s largest, fully-integrated HIV prevention program.
the disease is most prevalent. Similarly, the Clinton Foundation is partnering with companies such as Ranbaxy, Cipla, Matrix, Roche, and Becton Dickinson to negotiate better pricing for ARV drugs and diagnostics to assist NACO in its care and treatment programs. The success of these initiatives has resulted in benefit for both corporations and society at large. The benefit to society is obvious, whereas the gain to corporations has been in the strong brand image that they have created in the minds of their customers and potential investors, both domestic and international.

e. CSR Reporting: Social accounting or sustainability reporting or triple bottom-line reporting, which involves communicating to the various stakeholders involved and the public at large the impact of the corporations' CSR efforts, is an important aspect of CSR. Such reporting provides an important opportunity to the corporations to demonstrate the sincerity of their efforts to their stakeholders. "The two major public international CSR guidelines, the UN Global Compact and the OECD Guidelines, do not themselves contain a particular reporting mechanism to which corporations are invited to subscribe." Nonetheless, the OECD Guidelines and the Global Compact recognize the importance and credibility of private or NGO-based reporting mechanisms. Perhaps the most important among these is the Global Reporting Initiative (GRI), which is partly supported by the UNDP. "Working with leading international institutions, such as the ACCA, and the Global Reporting Initiative, there is a powerful opportunity to develop a core set of common indicators that leading companies can use to communicate their performance, both internally and externally." Large companies have found that CSR reporting can boost profitability by, for example, prompting corporations to make socially- and environmentally-conscious investments that rapidly pay for themselves and contribute to the bottom line by reducing energy costs or the costs of absenteeism and worker errors. Integrating concepts such as total quality management (TQM) and cost of poor quality (CPQ) into CSR reporting has been suggested as a logical next step to maximize the potential of CSR reporting, and to help businesses realize cost savings. With regular sustainability performance reporting, corporations can measure, track and improve their performance on various issues, and their CSR efforts will prove more fruitful. Moreover, the level of transparency that reporting engenders will increase the involvement of all the stakeholders, and they can all work together to see the success of the corporation's CSR initiatives. It is not simply the large MNCs that have realized the benefits of CSR

88. The Bill & Melinda Gates Foundation, supra note 71.
90. Bantekas, supra note 60, at 337.
91. The Global Reporting Initiative (GRI) has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. See www.globalreporting.org.
93. Adam Sulkowski et al., Corporate Responsibility Reporting in China, India, Japan and the West: One Mantra Does Not Fit All, 42 New Eng. L. Rev. 787, 793 (2008).
reporting. Corporations located in developing countries have also begun to recognize the advantages after reaping profits from implementing CSR reporting programs. In the case of India, the CSR reporting trend is picking up strongly, but is still substantially limited. In fact, until recently, only a handful of companies were engaged in CSR reporting. But efforts are being made in the right direction, and the Tata Group, along with other companies such as ITC, Dr. Reddy’s Laboratories, Jubilant Organosys, and Ford India is leading the way. This demonstrates that the wave has just started, and there is no stopping it. It might take some time for Indian corporations to reach a point where all corporations, big and small, are engaged in CSR reporting, but once corporations become aware of the benefits of such reporting they will feel compelled to implement it.

Finally, globalization, together with the economic reforms of 1990s, has brought about a fundamental transformation in the outlook of India as far as CSR is concerned. No longer are corporations operating in India approaching CSR in a restricted manner through sporadic philanthropy. Today, they are more involved in developing a stakeholder-oriented approach, and use their core competencies in addition to committing financial resources to accomplish their CSR goals. They have realized that the long-term success of their companies depends on the satisfaction of the many stakeholders in the community. Though the current global financial crisis has forced corporations to think twice before allocating resources toward CSR projects, the effects of the crisis on society have also made them realize the relevance and importance of programs that offer support to the communities in which they operate. In fact, only those corporations that thought of CSR as simply a philanthropic activity are having a hard time continuing with it. Corporations that have integrated CSR into their business strategy, and have tied such efforts to their core competencies continue sincerely to pursue the programs even today. The efforts of these corporations will eventually reap substantial tangible business benefits to them as they build and further strengthen their credibility and goodwill in society. The future of CSR in India is bright, and its importance will continue to grow even further given the increasing importance accorded to CSR worldwide and India’s own realization that it needs CSR to achieve long-term sustainability in the world economy.

94. Id. at 794.