

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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CORPORATE PHILANTHROPY Vs. CORPORATE SOCIAL RESPONSIBILITY: AN INDIAN INSIGHT

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ABSTRACT

Corporate social responsibility (CSR) and corporate philanthropy is a highly misunderstood & misinterpreted term in India, people often interlink this two term which are having altogether a different prospective. Some Indian companies believe that they are complying with laws & regulations fulfill their need for social responsibility. A corporate must take these activities with sincerity in order to provide a growth full nation. Although India is a favorable business destination but unless poor people have equity in the growth of economy, India can never achieve the title of super economy. Corporate social responsibility is one such important area of corporate behavior & governance that needs to be given thorough importance. At the same time csr is one such effective tool that synergizes the efforts of corporate & the social sector agencies towards sustainable growth & development of the societal objectives at large. This paper emphasizes that how CSR has become a ladder for development of any corporate organizations. This paper tries to bring out CSR initiatives taken by various organizations in India. An emphasis has been made in order to have an understanding about how corporate are utilizing the initiates at name of philanthropy and counting them to be there CSR activity and how the upcoming ceiling of mandatory 2% CSR is getting on their nerves and making them to enter and explore some hidden unexplored arenas of governance. This paper is completely a work based on articles and secondary data so collected.

KEYWORDS

CSR, Corporate, Business, India, Responsibility, Philanthropy.

INTRODUCTION

Both corporate philanthropy and corporate social responsibility help define a company's reputation and image and both create goodwill with the community and prospective customers. An increasing trend is being followed now a day by big brand corporate houses for contribution certain amount to society in terms of charity or donations or integrating social responsibility into their overall operating strategies. However, the impact of two strategies adopted is entirely different both for company and community.

Corporate philanthropy is strictly an executive decision, with only senior management deciding when and how much to donate, or to whom to award grants. Sometimes, all employees are involved, especially with fundraising events or drives. For corporate social responsibility to succeed, however, every employee and every department must play a role. Corporate social responsibility, often called CSR, is frequently a company-wide effort, involving activities like manufacturing, processing or even marketing. Because of this, every employee must understand the company's CSR strategy and how he or she contributes to the success of the initiative.

While corporate philanthropy may be used to enhance a company's image, it is generally separate from a corporation's long-term business strategy, and has less effect on the organization's bottom line and ability to attract customers. Corporate philanthropy's primary benefit may be on creating goodwill among the community it serves. Corporate social responsibility programs attempt to merge two goals: adhering to high ethical standards while also enhancing profits. With CSR programs, companies find a way to integrate the needs of the community with programs and features that also boost its bottom line. For example, a company may donate a portion of every item sold to a specific charity, helping the charity while simultaneously encouraging people to buy its product or service.

OBJECTIVE OF THE STUDY

The study has been conducted mainly to:

- Understand the nature and extensive parameters of corporate social responsibility in India
- To understand the challenges in execution of Corporate Social Responsibility
- Corporate Social Responsibility Practices and its impact on Business
- To understand the difference between corporate philanthropy and CSR.
- To have a glance at how the two being misinterpreted or used interchangeably.

LITERATURE REVIEW

Yoon et al (2006) found that, CSR activities improve a company's image when consumers attribute sincere motives, are ineffective when sincerity of motives is ambiguous, and hurt the company's image when motives are perceived as insincere. Denis et al (2012) argues that, the factors, community, policy, mission and vision, workforce, and environment have critical role in making CSR a very successful execution. Among these factors, environment and mission and vision had the strongest predictive power in people's preference to stay, willingness to pay, perception of service quality, and brand image and Waddock (1997) found that, CSR results in an improvement in firm performance in all levels.

Galbreath Jeremy (2009) explored how corporate social responsibility (CSR) can be effectively built into firm strategy.

Gabriel Juan (2009) From the decision-maker's viewpoint, the success of a social responsibility program rests heavily on a corporation's ability to create links in the public consciousness between the CSR activities of an organization and its performance to different stakeholders. However, thinking broadly about CSR outcomes often results in a list that is much too long to be of any practical use. The purpose of this paper is to provide an empirical study to provide understanding as to why business organizations are increasingly engaging in corporate social responsibility issues.

Jones Brian (2009) explored and explained corporate social responsibility (CSR) as a theoretical construct that has implications and consequences for corporate governance in particular, and more generally for the economy, business and society.

David Fatima (2009) discussed the interrelationship between corporate income tax (CIT) and corporate social responsibility (CSR) within the international framework of the European Union (EU).

Jose Rigoberto (2009) developed an analytical model for appraising and measuring corporate social responsibility (CSR). The theoretical and conceptual grounds that sustain the model are based on previous approaches.

Karin Greenberg (2009) aim is the understanding of the mechanisms involved when an organization decides to direct its focus on CSR issues. CSR efforts are carried out on a long term basis, often in a turbulent business.

RESEARCH METHODOLOGY

Descriptive Research Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically (Kothari1998). A researcher should think about the way in which he should proceed in attaining his objective in his research work. The researcher has to make a plan of action before starting the research. This plan of study of a researcher is called the research design. Descriptive research design is used for this study. Descriptive research design is used to those studies which are concerned with characteristics of a particular group.

SOURCE OF DATA COLLECTION

Secondary data: Secondary data has been collected from text books, research papers and websites.

CORPORATE PHILANTHROPY AND COMPANY GAIN

When you engage in philanthropy, your peers and the public do not expect you to gain from it, publicizing your philanthropic efforts as a way to improve your company reputation can be highly injurious for a business concern. So this is of no gain for a company in long run. Since it is a kind of voluntary contribution or kind of image building effort on part of corporates for gaining publicity. For having a wider understanding on the concept let's try to analyse some key benefits from philanthropy practice with some drawbacks:

- **Support of community and surrounding markets** especially by using profits derived from the community to benefit that same community (filled with its customers) businesses can greatly increase their prospects of future revenue flows. Supporting a community can lead to greater local economic success - creating income that can then be used at the business.
- **Market development** can also occur through the improved reputation of the business. The goodwill that a company can generate through corporate philanthropy can increase customers' interest and favorable opinions of the company. This may lead to increased sales, especially when the philanthropy is combined with effective advertising and co-branding.
- **Direct giving can hamper goals:** on downside or taking as drawback of philanthropy, philanthropy or charity or donation might not able to change the community as it perhaps thinking as it vision. As a business house is contributing funds to a non – profit organization which might can put a restriction on utilization of funds and as result the funds might not get utilized in a manner as business house decide it to be .

CORPORATE SOCIAL RESPONSIBILITY AND COMPANY GAIN

A business house can publicize its efforts for being socially responsible. The public tends to accept this and may respect the company for its boldly stating fact that social responsibility is a corporate duty. If a company can engage the community and customers in helping efforts to engage in socially responsible business, they can create goodwill. This goodwill can translate into loyal customers and positive brand recognition.

In today's digital, fast speed world, each business, small or big, needs to have a CSR program in place. If CSR is not yet part of your daily business practice, you must act fast. Or else you'll lose the trust of the people who are important to your business. The expectations of your staff, customers and the wider community have changed. Why CSR is turning so important or gaining importance, sum point with supporting downfalls are stated below:

Why CSR?

- Win new business.
- Increase customer retention.
- Develop and enhance relationships with customers, suppliers and networks.
- Attract, retain and maintain a happy workforce and be an Employer of Choice.
- Save money on energy and operating costs and manage risk.
- Differentiate yourself from your competitors.
- Generate innovation and learning and enhance your influence.
- Improve your business reputation and standing.
- Provide access to investment and funding opportunities.
- Generate positive publicity and media opportunities due to media interest in ethical business activities.

After attracting so many benefits yet certain corporate houses are still not involving CSR as part of their main business strategy because of some perception and beliefs at the back of your brain.

- **Increased operational cost** : CSR activities require a fixed fund to be allocated by business houses there by increasing cost of company which can lead to short term decrease in profits of a company.
- **Loss of competitive advantage** : A company performing CSR activity allocate a part of its profits for CSR activities as compare to company which is not engaged in CSR activity. Hence their main focus will be on core company objective thereby taking competitive edge over the company engaged in CSR .

DOING BOTH CORPORATE PHILANTHROPY & CSR

Corporate philanthropy and social responsibility are different but not mutually exclusive. You can engage in both. Since philanthropy and social responsibility come with costs, you should evaluate the extent of your financial commitments before you make them. In particular, avoid overcommitting and then having to back out due to financial stresses. The negative publicity from such action can hurt your company. Engaging in philanthropy and social responsibility simultaneously can help others while establishing your company as a good neighbor and generous giver. Many companies are still in the verge of two subjects and prefer philanthropy as there CSR initiative which is distinct. I envisioned companies going beyond simple philanthropic contributions to communities and starting to adopt truly sustainable business practices. This subject is gaining much more clarity in countries like India especially with more decisions, talks, understanding, focus and upcoming of most awaited company bill 2013.

Currently in India there is no clear understanding over what constitutes CSR. For the majority of companies, the focus has been on charity-based social initiatives, and many of those businesses are fiercely opposing the passing of the 2% mandatory spending. It is important to remember that while in developed countries many social services (health and education, for example) are adequately provided by central governments, in India the scenario is entirely different. In a situation where several governmental failures and endemic corruption have allowed for the majority of the population to live below the poverty line with little or no access to basic public services, corporate philanthropy towards community initiatives has the potential for becoming a crucial contribution to the national development. Hence, majority of business houses are fulfilling their CSR requirement by corporate philanthropic practice. Let's have an insight in what these business houses contributed in India and what our new company act 2013 hold for us or make it mandatory for us to think about sustainable development and putting a crunch on big brand money launderers.

CSR IN INDIA

Corporate Social Responsibility is on the rise all over the world and in India also. Civil Societies, consumers and other actors have increased pressure on companies to adhere to social and environmental standards and this pressure has impact on the business in India.

Top 10 activities in India where corporates were involved as CSR activities.

- **Adopt a school in a village:** Due to the inherent lack of quality primary education in the rural areas, the company could adopt a school in a village and employ qualified teachers with high backgrounds in their subjects. They can also provide for good sanitation, uniforms for the students, sufficient stationary and opportunities for extra-curricular activities.
- **Provide computers and free training for students in rural areas:** The company can donate computers to schools in rural areas and also provide free of cost computer training to the students, so that they can learn and enhance their IT skills.
- **Get affiliated with an NGO:** Join hands with an NGO and help them out by providing monetary funds and the likes. The employees of the company can also join the NGO on various activities it conducts for the area it is targeting.
- **Free medical camps for the backward regions:** The company can tie-up with a prolific hospital and provide free health check-ups in rural areas. Sometimes it could be for specific medical purposes, like polio vaccination in children, cervical cancer vaccinations in women, testing for malaria/dengue/swine flu, etc.
- **Blood Donation Camps:** Blood donation camps are one of the best ways to give back to the society, and the company can organize one and invite the general public to donate blood alongside the employees.
- **Donation of Sports Equipment in Schools:** With the increasing awareness of fitness and athletics, and the ever growing adoration for sports in India, donating quality fitness and sports equipment would not only persuade the students to adopt a more healthy lifestyle, but also advocate the company as a health and fitness promoting institution.
- **Adult Literacy Programmes:** This is an activity used by Tata Consultancy Services. India has so many able adults who are unemployed because they are illiterate and haven't received proper education, so this is an initiative that can increase the employment rate of the country and bring down the poverty levels.
- **International Scholarships for students from backward regions:** For students of brilliant academic caliber but no means to fulfill their potential abroad, the company can provide to fund for the student's tuition fee, accommodation fee and day to day living expenses, thereby providing deserving people with an opportunity they would have otherwise been devoid of.
- **Food Camp:** The Company can invite the general public to donate as much as food as they want to, in a food camp, which will later be given to, says an orphanage or distributed in a village.
- **Donation to Orphanage:** The employees can donate handsome amount of money, new clothes, toys etc. to an orphanage. They can also be required to visit the orphanages and spend quality time with the children there periodically, like say once a month.

CHARITIES /DONATIONS/ TOP PHILANTHROPISTS – INDIANS CONTRIBUTIONS

After having a look at what India has done so far on roads of CSR let's have a look at top 10 Indians who made their contribution through generous charity & donations on roads of CSR initiatives which helped in development of Indian society at large:

- **Azim Premji (chairman of Wipro):** He has made a donation worth \$ 2 billion towards the upliftment of education in rural India. The transfer amounts to over a tenth of Premji's total wealth from Wipro, which stands at ₹80,670 crore. According to him, "He believe that good education is crucial to building a just, equitable, humane and sustainable society. We want to contribute significantly towards improvement of education in India, and through that towards building a better society." his Foundation works towards education of rural children in India.
- **Shiv Nadar (the Founder of HCL):** He has donated over ₹580 crore. He earned the amount by selling his stake of about 2.5 percent in the company owned by him. By far the amount donated by him is bigger than standards set by large firms. It's not only about him, but his wife too had made significant contribution when it comes to charity. She has donated \$40 million over the years to support causes such as education, microfinance, health care and environment.
- **Anand Mahindra (chairman & managing director of Mahindra &Mahindra):** He made a contribution by donating \$ 10 million to his alma mater, Harvard University. The amount was donated to Harvard's Humanity Centre for a Humanity Program in the University. The donation will help promoting scholarships, discussion, conferences and workshops.
- **Vineet Nayyar (Managing Director of Tech Mahindra):** He donated one-third of his shares in the company to the Essel Social Welfare Foundation, a Delhi-based charitable organization run by his wife, Reva Nayyar. He has gifted 3.5 lakh shares, which is worth ₹31.78 crore. His wife is associated with a number of NGOs in the country and supports education for underprivileged children including visually handicapped and girl child.
- **Ratan Tata (The Chairman of Tata Group):** Ratan Tata, made donation for the top university in the world, Harvard University. He donated ₹22 crore to the eminent university. The amount donated from the Tata Education and Development Trust and the Dorabji Tata Trust will be used for constructing new educational and residential buildings in the university's campus in Boston. He was honoured with Alumni Achievement Award for taking part in university's advanced management programme.
- **Nandan Nilekani (Infosys Co-Founder and Chairman):** He has donated \$ 2 million to a charity founded by his wife that focuses on water issues such as purification, rain water harvesting and getting supplies to the poor. He has also started the New Foundation India along with historian Ram Chandra Guha. The organization supports research in social science by providing relevant scholarships.
- **G M Rao (The Chairman of GMR Group):**He made a generous contribution by donating ₹152.89 crore towards the education of underprivileged children. The endowment made by Rao is equivalent to his personal share of his business. According to a business magazine Forbes, Rao's net worth is estimated around \$2.6 billion. According to him he feels that his action goes with the philosophy of nation building before any other consideration.
- **Anil Agarwal(The Chairman of mining outfit Vedanta Resources):** donated \$1 billion to construct a new university along the shores of Bay of Bengal in eastern state of Orissa. He feels India needs a lot of Universities with medical, business and engineering schools, all in one campus. Giving credit to his father, Anil says, "My father [who didn't go to college either] reads a lot." "He told me that great higher education was fundamental to where the U.S. is today. It had the vision, and it created a mass [higher] education system. Because of that, it has produced the best politicians, huge liberal arts programs, best medical research. I always felt that India should have that.
- **Sunil Mittal (The Chairman and Group CEO of Bharati Enterprises):** He was named the Philanthropist of the Year by the Asian Awards 2010 for his contribution through the Bharti Foundation in area of education for disadvantaged children. The Bharati Foundation Schools provide education to about 30,000 children in states like Punjab, Haryana, Tamil Nadu and Rajasthan. It also promotes employment by hiring local people as teachers and staff in schools.
- **Mukesh Ambani (Chairman of Reliance Industries Limited):** He invested around ₹500 crore to set up Reliance Foundation with plans to scale up its contribution to ₹1,000 crore. His wife, Nita Ambani, look after Reliance's Foundation, a corporate-responsibility program that supports many charitable organizations, have run make and supported many NGO's together with being philanthropy partner of most popular TV show Satyamev Jayati. It addresses issues like formal and vocational education, affordable high-quality health care, meaningful rural development and urban renewal, and protection and promotion of India's heritage of arts and culture.

Business houses in India have their focus so far on corporate philanthropy rather than focusing on CSR . due to which India has been updating its corporate law and legal framework to increase transparency, accountability, and align with international business standards. The primary focus of these efforts has been the revision of the Companies Act of 1956 and replacing it with company's act 2013.

HOW THE NEW 2013 ACT GOING TO CHANGE THE PICTURE OF CORPORATES IN INDIA?

The corporates as we discussed up till now have their major focus on corporate philanthropy rather than having a base of corporate social responsibility. It was so far a kind of choice based activity rather than being mandatory but upcoming of new act 2013 makes it mandatory for all business houses based on few requirements. Let's have a look at which it holds for them:

- **MANDATORY CSR CLAUSE**

Clause 135 of the Companies Bill (the "CSR Clause") requires a qualifying corporation to spend on CSR at least 2 percent of its average net profits made in the preceding three financial years (the "2 Percent Formula").

Recognized CSR activities are list in Schedule VII of the Companies Bill (outlined below). A qualifying company that fails to spend the required amount will have to explain that failure in the report of the board of directors.

- **PENALTY IN NON- COMPLIANCE WITH THE REQUIREMENT**

While a company is not subject to liability for failing to spend on CSR under the 2 Percent Formula, a company and its officers are subject to liability for not explaining such a failure in the report of the board of directors.

Failure to explain is punishable by a fine on the company of not less than 50,000 rupees (about U.S. \$900) and up to 25 *lakh* rupees (about U.S. \$46,000). Further, officers who default on the reporting provision could be subject to up to three years in prison and/or fines of not less than 50,000 rupees (about U.S. \$900) and as high as 5 *lakh* rupees (about U.S. \$9,200).

- **APPLICABILITY**

The CSR Clause of the Companies Bill is applicable to any company with:

- (1) A net worth of rupees 500 *crore* (about U.S. \$90 million) or more;
- (2) A turnover of rupees 1000 *crore* (about U.S. \$180 million) or more; or
- (3) A net profit of rupees 5 *crore* (about U.S. \$900,000) or more in any fiscal year.

- **REQUIRED ACTIVITIES FOR QUALIFYING COMPANIES**

A qualifying company under the CSR Clause must perform the following activities:

- Create a CSR committee on the board of directors with the committee consisting of three or more directors of which at least one has to be an independent director
- The committee is required to formulate and monitor the company's CSR policy and recommend the expenditure to be incurred on such activities
- The CSR activities may comprise any number of activities listed in Schedule VII of the Companies Bill (outlined below)
- The board report will require the disclosure of the CSR committee and the contents of the CSR policy
- The board is required to ensure that the activities provided under the CSR policy are undertaken and that the company spends at least 2% of the average net profits made by the company in the preceding three financial years in accordance with the policy
- Where the board fails to spend such an amount, it is required to provide the reasons for such failure in the report of the board of directors.

- **PERMISSIBLE CSR ACTIVITIES**

The CSR Clause leaves it to the discretion of the company's board to determine the exact manner in which the CSR amounts are spent. However, Schedule VII of the Companies Bill requires the CSR policy created by the CSR committee involve at least one of the following focus areas:

- Eradicating extreme hunger and poverty;
- Promotion of education;
- Promoting gender equality and empowering women;
- Reducing child mortality and improving maternal health;
- Combating [HIV], [AIDS], malaria and other diseases;
- Ensuring environmental sustainability;
- Employment-enhancing vocational skills;
- Social business projects;
- Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the state governments for socioeconomic development, and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
- Such other matters as may be prescribed.

CONCLUSION

Changes made so far in new companies bill has made CSR activities more challenging. An activity which was merely a voluntary act of corporate houses in order to gain there marketability has turned around into a mandatory act with the upcoming of new companies act 2013. Every company will be in a grip of government in term of expenses so made in uplifting society or building there goodwill. Further companies will have to hire the brightest and the most outstanding talent to drive their CSR initiatives since they will now begin to also impact their bottom lines.

To conclude we can say with the government act of turning strict towards the entrepreneurs the corporate philanthropy which use to be followed since ages is going take a new shape heading towards actually corporate social responsibility which is a need of an hour for overall development not just development in one specific sphere as charity or donation but it requires an involvement of employees and society both.

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