BRIEFING PAPER

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Responsible Business in India – yesterday, today & tomorrow

Annals of Indian history suggest that the country has consistently defied the relatively narrow notion that 'the business of business is business'. The evidence is witnessed in the words of great thinkers and visionary leaders of the country – right from Kautilya in the 4th century B.C. (as recorded in the *Arthashastra*[1]) to Mahatma Gandhi and Jamshetji N Tata[2] in the post-independence period. The urge to promote Corporate Social Responsibility (CSR) or business responsibilities has been central to the Indian tradition of business development. Among the modern business leaders who have commented and contributed to the subject immensely, NR Narayana Murthy's name deserves special mention. He considers that "CSR is really about ensuring that companies can grow on a sustainable basis, while ensuring fairness to all stakeholders". Perhaps this is one of the most appropriate ways for businesses to look at the subject in present times.

CSR Evolution in India

Practice of corporate social responsibility in India can be sub-divided into the following five historic phases:[3]

First Phase

The early phase of the Indian thinking on CSR comprises the Vedic philosophy and the thoughts enshrined in Kautilya's *Arthashashtra*. According to the Vedic philosophy, business was viewed as an important and integral part of society, and was considered as a vehicle to create wealth for everyone in society, through the right means (*sarvalokahitam*). In *Arthashashtra*, Kautilya stressed on the fact that happiness is not only obtained from wealth and profit, but also by doing things rightly and doing the right things (*sukhasyamoolam dharma*). He pronounced that happiness for self and others results from ethical behaviour: wealth or resources make ethical behaviour possible.[4]

Second Phase

In this phase altruistic considerations were the main drivers. Culture, religion, family values and tradition influenced how CSR was carried out. In the pre-industrialisation period, wealthy merchants shared a part of their wealth with the wider society by way of setting up temples, reservoirs, etc. One can cite here the example of *Agrasen Ki Baoli* (located in Delhi), which was restored by an *Agrawal* merchant of Delhi named *Nattal Sahu* in the early 12th century. Many such merchants helped during famine and epidemics by providing food from their godowns and money as well. With the arrival of the East India Company in India, the approach towards CSR changed.

The industrial families of the 19th century (Tata, Godrej, Bajaj, Modi, Birla, Singhania, etc.) were strongly inclined towards economic as well as social considerations. However it has been observed that their efforts towards social as well as industrial development were not only driven by selfless and religious motives but were also influenced by caste groups and political objectives.

Third Phase

In this phase during the independence movement, there was an increased stress on Indian industrialists to demonstrate their dedication towards the need for a new India. This was when Mahatma Gandhi introduced the notion of 'trusteeship'. He felt that capitalists should consider themselves as trustees of the assets vested with them - provided they conduct themselves in a socially responsible manner. 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 upliftment of society. Here 'asset' has a broader connotation: it can also include knowledge or skill.[5]

He had observed, "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." These were Gandhiji's words which highlight his argument towards his concept of 'trusteeship'.

Gandhiji's influence put pressure on various industrialists to act towards building the nation. According to Gandhiji, Indian companies were supposed to be the 'temples of modern India'. Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhiji's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

Fourth Phase

This phase of CSR (1960-80) is related to the element of 'mixed economy', emergence of Public Sector Undertakings (PSUs) and laws relating to labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent rules and regulations surrounding the activities of the private sector, the period was described as an 'era of command and control'. The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices.

The Monopolies Inquiry Commission of 1965 reported that just 75 business houses in India controlled 44 percent of the total paid-up capital and 47 percent of the total assets of all private and non-banking companies. This report also cited several cases of private businesses, including Transnational Corporations (TNCs) that had been indulging in restrictive trade practices. One of the results was enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food, etc.) to the needy. However the public sector was effective only to a certain limited extent. This led to a shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary.

Fifth Phase

In the fifth phase (1980 until the present), Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 1990s the first initiation towards globalisation and economic liberalisation were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute towards social causes. Globalisation has transformed India into an important destination as far production and manufacturing bases of TNCs are concerned.

As western markets are becoming more and more concerned about labour and environmental standards in the developing countries, Indian companies which export and produce goods for the developed world need to pay close attention to compliance with international standards.

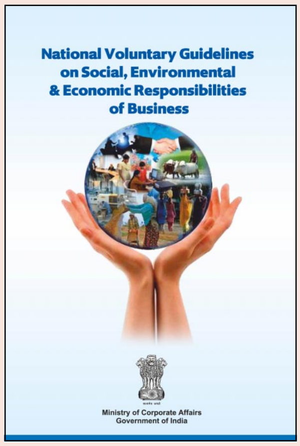
Policies and Reform Measures

Government's thinking on the subject received a boost when the Prime Minister announced his *Ten Point Social Charter on Inclusive Growth* at CII's Annual General meeting in 2007 (Box 1). It was highlighted by Dr Manmohan Singh in his speech that there is need for taking a more comprehensive view of CSR in India.

National Voluntary Guidelines

A set of *Voluntary Guidelines on CSR* was developed by the Ministry of Corporate Affairs in December, 2009.[6] These guidelines comprised six *core elements* presenting a common framework for Indian Inc. to pursue CSR practices. These guidelines were developed following the global financial meltdown and at the backdrop of the *Satyam* scandal and various others events involving conflict between business and society in India. These events had been fast reducing society's confidence and belief in the ability of Indian businesses to help achieve economic progress and social welfare.

Subsequently, under the aegis of the Ministry of Corporate Affairs, the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs)[7] was developed. The process was managed by the Indian Institute for Corporate Affairs (IICA)[8] involving a group[9] of different stakeholders who spent considerable amount of time studying and discussing available literature and experience across the globe to come up with an outline of the NVGs. Lessons were drawn from experiences in other countries and the motivations were derived from the advances that had been achieved in the last 4-5 years on CSR.



Box 1: PM's Ten Point 'Social Charter' (2007)

First, have a healthy respect for your workers and invest in their welfare. In their health and their children's education, give them pension and provident fund benefits, and so on.

Two, corporate social responsibility must not be defined by tax planning strategies alone. Rather, it should be defined within the framework of a corporate philosophy which factors the needs of the community and the regions in which a corporate entity functions.

Three, industry must be pro-active in offering employment to the less privileged, at all levels of the job ladder. The representation companies give to Scheduled Castes, Scheduled Tribes, other Backward Classes, Minorities and Women, in their workforce and staff must increase.

Four, resist excessive remuneration to promoters and senior executives and discourage conspicuous consumption.

Five, invest in people and in their skills. Offer scholarships to promising young people. Fill young people with hope in their future. High rates of growth mean nothing for those who are unable to find employment. We must invest in skill-building and education to make our youth employable.

Six, desist from non-competitive behaviour. The operation of cartels by groups of companies to keep prices high must end. It is unacceptable to obstruct the forces of competition from having freer play. It is even more distressing in a country where the poor are severely affected by rising commodity prices. Cartels are a crime and go against the grain of an open economy.

Seven, invest in environment-friendly technologies. India's growth must be enhanced and, yet, our environment and ecology must be protected and safeguarded for our future generations. Industry has an enormous role to play in this regard.

Eight, promote enterprise and innovation, within your firms and outside. If our industry has to make the leap to the next stage of development, it must be far more innovative and enterprising.

Nine, fight corruption at all levels. The cancer of corruption is eating into the vitals of our body politic. For every recipient of a bribe there is a benefactor and beneficiary. Corruption need not be the grease that oils the wheels of progress.

Ten, promote socially responsible media and finance socially responsible advertising. Through your advertisement budgets and your investments in media you can encourage socially responsible media to grow and to flourish.

A draft NVG was developed and presented across the country to get views of various stakeholders. Finally, the NVGs were adopted in mid-2011. A unique document across the developing world, the NVGs present a framework comprising 9 Principles and 48 Core Elements and is intended to provide a holistic idea of how CSR can be operationalised in sectors. It is not only applicable for companies operating in India but also on Indian TNCs operating outside the country.

Thinking on CSR in India has undergone considerable metamorphosis since the early times. *Business Responsibility* is now being considered as one of the most appropriate (and comprehensive) delivery mechanisms for businesses to meet their societal expectations. This is reflected in the NVGs' *Principles* as well.

IICA has started a process to muster ideas for the application of the NVGs in specific sectors by establishing an *Expert Group* in 2012, which would develop a blue-print for the application of the NVGs in a few sectors of the Indian economy. It is also envisaged that this exercise will culminate in the development of 'sector-specific' NVGs in India – at least for a few key sectors (that have a significant public interest elements).

Companies Bill, 2012

A recommendation made by the Parliamentary Standing Committee on Finance in late 2010 had brought unprecedented attention to the subject of CSRin the country. The Committee had stuck to its recommendation (57th Report, June 2012)[10] to make CSR mandatory for a certain category of companies.

In spite of having faced opposition and resistance from various quarters within and outside the policymaking circuit, the Lok Sabha approved the *Companies Bill 2012.*[11] The Bill will now travel to Rajya Sabha for consideration, and subsequent enactment.

Section 135 of the proposed Companies Bill urges companies of net worth more than ₹500 crore,[12] or turnover of more than ₹1000 crore, or annual profit worth more than five crores in a financial year to make efforts to spend two percent of its average annual profit (of three immediately preceding financial years) on CSR activities. Schedule

VII of the Bill enumerates activities that can be considered as CSR.

Business Regulatory Framework

As a part of the Planning Commission's groundwork for developing the current Five Year Plan (2012-17), a Working Group on Business Regulatory Framework (WG-BRF) was formed under the Steering Committee on Industry to advise the Commission on ways for reforming the enabling business environment to stimulate manufacturing growth in India. This was driven by the understanding that the targeted growth path in the manufacturing sector (manufacturing contribution raised to 25 percent of GDP, by the year 2025) can only be achieved by introducing certain innovative and long-lasting improvements in the way business is regulated in India.

This Working Group was anchored by CUTS and sub-divided into four thematic Task Forces on: (i) Business Regulation; (ii) Simplification of Business Procedures; (iii) National Competition Policy; and (iv) Business Responsibility.

The recommendations provided by the ***Task Force on Business Responsibilities*** in the report of the WG-BRF[13] were as follows:

- Inclusion of Business Responsibility as distinct subject under the Government of India (Allocation of Business) Rules 1961
- Mandating the Disclosure Framework for Adoption of National Voluntary Guidelines (NVG) Principles
- Establishing National Foundation for Business Responsibility (NFBR)
- Mandating the Alignment of Public Private Partnership Projects with National Voluntary Guidelines (NVG) Principles

It should be reported here that one of the suggestions of the Task Force has already been operationalised. The Ministry of Corporate Affairs has already developed the Annual Business Responsibility Report (ABRR) for companies to prepare their annual business responsibility reports and submit them to the Ministry.

By a circular in August 2012, the Securities & Exchange Board of India (SEBI) – the market regulator made it mandatory for 'Top 100' listed companies (by market capitalisation at BSE and NSE by March 31, 2012) to submit their business responsibility reports using the ABRR format.[14] The Ministry of Environment & Forests (MoEF), Government of India has also initiated a process for encouraging companies to develop their annual Corporate Environmental Responsibility Policy – suing the NVGs framework.

CSR Delivery Mechanisms

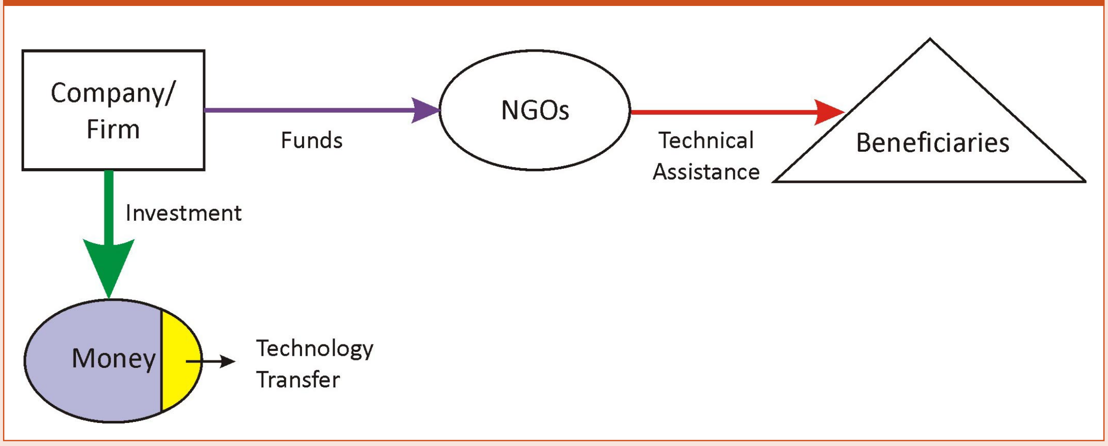
Companies that fall in the above mentioned categories (as defined under the Companies Bill and mandates by SEBI), now have to take decisions on how best to invest in CSR activities. This section presents three delivery mechanisms that have commonly been adopted by Indian firms for making contributions to meet societal needs:

i. Individual Philanthropy;
ii. Corporate Social Responsibility/Corporate Philanthropy; and
iii. Business Responsibility.

Individual Philanthropy

The 'Idea of Giving' is ingrained in the Indian culture and tradition. The way it is typically practiced in India today is for a business entity or an individual to donate an amount to another entity (often an NGO or a Trust) for it to engage in community/societal development activities. Donation made by individuals/business entities to NGOs working on specific social issues is an example of individual philanthropy. The business entity/

Figure 1: Individual Philanthropy

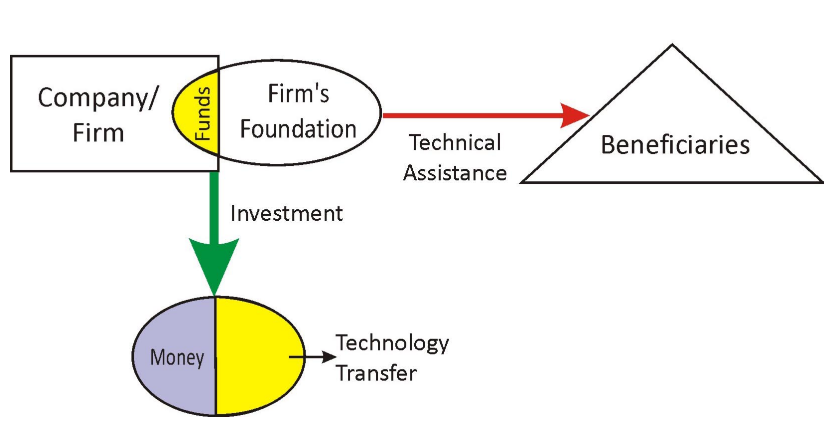


individual has often little or no control over the design of the delivery mechanism of such activities, and little contact with the ultimate beneficiaries (Figure 1).

Corporate Philanthropy

In this approach, the business that is interested in undertaking/contributing towards community/ societal development activities, allocates a certain amount of its funds either to a department within the business entity, or creates another organisation (e.g., a foundation) for undertaking such activities. A number of big corporate houses in India have their foundations, e.g., Reliance Foundation, Bharti Foundation, etc. Through this approach, the business entity usually exerts considerable control over the delivery of such activities, and its contact with the ultimate beneficiaries is enhanced (Figure 2).

Figure 2: Corporate Philanthropy



Business Responsibility

According to this approach, the business entity refines/readjusts its model of doing business from within and in the process makes greater positive contribution to societal development. A simple underlying principle for making a start in this direction is to abide by all applicable rules and regulations at the workplace, at the marketplace, for the community and the environment (the least that a firm is expected to do). Such an emphasis on realignment of the business model is driven by the top management and inspires innovation and holistic transformations in the organisation. Such businesses operate always keeping in view their contribution to the (above-mentioned) beneficiaries, and maintain direct contact with them (Figure 3).

Role of Government in Promoting CSR

Fox, Ward & Howard (2002)[15] recommend that developing country governments should play certain roles in promoting CSR. In addition to the four specific roles (*Mandating, Facilitating, Partnering and Endorsing*) that they recommend, a fifth role (*Demonstrating*) is critical in the context of India.

The five specific roles that the Indian government needs to play to propagate the uptake of business responsibilities are elucidated below:

i. ***Mandating***: formulating laws, regulations, norms, etc. that relate to control of certain aspects of business operations;

ii. ***Facilitating:*** developing appropriate policies and conditions to enable investment in CSR activities;

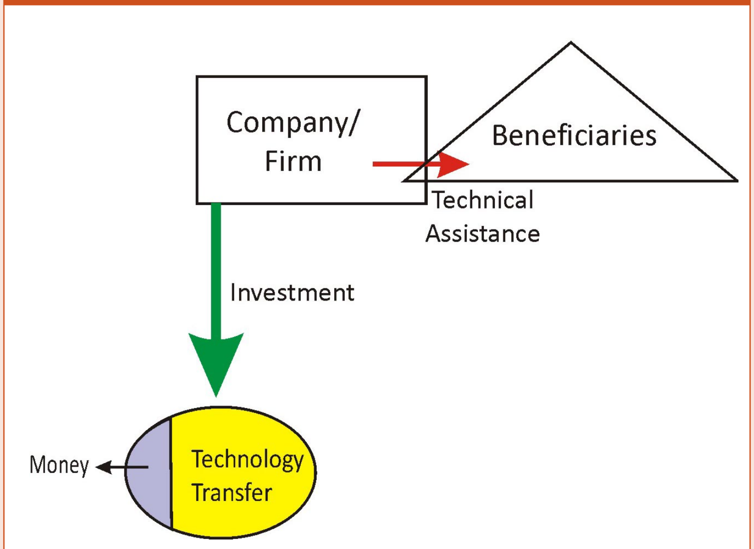
iii. ***Partnering***: combining skills and expertise within the public sector with that of private entities to undertake CSR activities or deal with CSR-related issues;

iv. ***Endorsing***: recognising CSR activities through award schemes, or showcasing 'cases' to motivate firms for their uptake; and

v. ***Demonstrating***: leading the way by ensuring that public sector firms undertake CSR activities.

On the basis of the deliberations among of the Task Force on Business Regulatory Responsibility (2011) an approach was recommended (see Table 1) for promoting

Figure 3: Business Responsibility



responsible business in India by explaining what the government should do *vis-à-vis* different constituencies, including: (i) business entities, (ii) business enablers and (iii) other stakeholders of business responsibility.

Next Steps in the 'CSR Agenda'

Overall, it is evident that there has been unprecedented interest and progress involving both state and non-state quarters on the issue of responsible business in India over the last couple of years. The adoption of the Companies Bill 2012 by the Parliament would give considerable fillip towards operationalising the 'CSR agenda' in India. If properly supported through enabling policies and proper guidance, business can contribute considerably to socio-economic progress in India, linking those who remained far removed with the Indian 'growth story'

The government, in general, and the Ministry of Corporate Affairs, specifically, would have to play a key role in ensuring that firms are properly sensitised about options that are available to them. However, from some of the current preparatory work, it seems that the government is not well prepared. Given the volume of the CSR agenda, one would expect that a Department dedicated to CSR be established within the Ministry of Corporate Affairs – to be the one stop shop for all such enquiries and actions.

Further, the Schedule VII of the Companies Bill envisages a fairly narrow approach about businesses' contribution towards society; by presenting a set of humanitarian actions that business could consider investing for CSR activities.

There is not as much attention given to the NVGs, which provide a modern and flexible framework that business can use to integrate elements of responsible business behaviour within their core model of doing business. It has the potential of transforming a company into a 'responsibility driven' entity thus help it gain 'competitive edge' in the market. The unilateral reliance on funding humanitarian actions, as being promoted by the Schedule VII of the Bill would keep 'responsibility' as a peripheral functional area of a company.

This lack of concurrence between the two above-mentioned processes, i.e., NVGs operationalisation and application of Section 135 (and Schedule VII) of the Companies Bill needs to be addressed at the earliest.

The following ***key actions*** are critical to ensure that the intent of the government and other evangelists of business responsibility yield the anticipated result:

- Allocation of responsibility to a key government department/agency for handling issues pertaining to CSR/business responsibility;
- Refinement of the Schedule VII of the Companies Bill by appropriately incorporating the NVG Principles (or, subsequently in the CSR Rules to be framed)
- Developing a blue-print for the application of NVGs in key sectors (starting with state-level actions); and
- Design a comprehensive capacity building programme for various key constituencies (business entities, business enablers and other stakeholders on business responsibility) on CSR/ business responsibility at the national and state-levels.

Table 1: Role of Government Matrix for Promoting Responsible Business in India			
	CONSTITUENCIES TO BE ADDRESSED		
	I. Business Entities	II. Business Enablers	III. Stakeholders of Business Responsibilities
	1. Corporate - Large, Medium, Small 2. Non-Corporate Business entities	1. Financial institutions 2. Investors 3. Users, Consumers and Customers 4. Value Chain Partners 5. Stock Exchanges 6. Industrial Development Agencies	1. Managers 2. Workers 3. Business Associates 4. Environmental Groups 5. Trade Unions 6. Consumer Organisations 7. Community Groups 8. Political parties and Legislators 9. Other NGOs 10. Media 11. All others
ROLE OF GOVERNMENT			
A. Mandating and Regulating	• Mandating disclosures by all business enterprises on 9 Principles of the Draft National Voluntary Guidelines	• Mandating the creation of a high-powered cell within the government to regularly review and look after various regulations, policies, rules and procedures created or being promoted by any ministry, that affect BR • Mandating banks to evaluate applications [beyond Priority Sector lending] and credit worthiness of organisations by taking into account the extent of their BR. • Mandating Priority Sector lending based on the holistic needs of the Nation, including areas that significantly affect environmental performance.	• Stakeholder Engagement as per norms • Education of civil society organisations (CSOs) and business membership organisations (BMOs) on the importance of sustainability and responsibility issues
B. Enabling and Facilitating	• Formulation of additional output oriented guidelines/codes, standards and performance metrics. • Engaging Institute of Chartered Accountants of India (ICAI) to have a re-look at the accounting heads to suitably accommodate BR related expenditure, so as to make it tax deductible • Incentivising BR through tax breaks/ softer credit, etc. (EXISTING and NEW businesses) • Training and capacity building towards BR • Creating an institutional framework at the Central level in terms of a council for BR specifically charged with the task of promoting this concept	• Popularising a (suitably developed) Performance metric for clear measurement and articulation of BR • Creating Government supported Index for Responsible Business at Stock Exchanges on the lines of OMXS30 Ethical and OMX GES Ethical Sweden Index; or the S&P Sustainability Index • Enabling separate financial instruments that provide softer loans to responsible enterprises	• Encouraging inclusive, sustainable business models • Promoting vocations (by NGOs) that stimulate BR by micro-enterprises • Development of Centres of Excellence to train young professionals to pursue the BR agenda (specific nodal centres/ institutions dedicated to each of the three pillars of BR – social, environmental and economic) • Stakeholder awareness and Guidance Frameworks to expand their preferences for products and services of Responsible Businesses • A pool of BR managers, resource persons for TA/CB purposes
C. Recognising (including Standardisation)	• Formulating Guidelines/ Codes/ Standards to facilitate monitoring , evaluation and objective recognition of BR performance • Recognising leaders and awarding appropriate performance under Responsible Businesses	• Developing credible mechanisms to recognise Responsible Business • Creating a pool of certifying and accrediting agencies who can certify organisations as conforming to the agreed upon Standard • Use data compiled by BMO's, NGO's, municipalities and urban clusters to determine areas that need innovative interventions by Businesses in the BR area. Stimulate businesses in such regions to act on priority	• Organising exposure visits and spreading awareness about such industrial areas for larger sharing and influence

D. Leading and Demonstrating	• Government to identify "high-risk" sectoral and geographical hot spots (locations depicting poor human and environmental indicators) from the perspectives of BR and take initiatives along with business to ameliorate the prevailing conditions	• Special industrial areas dedicated for Business units compliant to the Draft National Voluntary Guidelines • Incentivise responsible business behaviour through public procurement by evaluating the bids for all government procurement on the basis of the 9 Principles, and not being limited by the "L1" methodology.	• Facilitating creation of centres of excellence in the area of BR for training, teaching and research • Fostering mechanisms to promote collaborations between businesses, NGOs, BMOs and other stakeholder groups.
E. Partnering and Collaborating	• Synergising government schemes with business initiatives constructively with an outcome and impact orientation. • Creating collaborative platforms between government and businesses to leverage all financial and non-financial resources • Undertaking CSR projects in PPP mode • Incubation programmes for instilling elements of BR (both Business to Business and within the value-chain)	• Enabling such collaborative R & D mechanisms that accommodate innovation and are opportunity oriented – in processes as well as products, and focused on the SEE of business	

Source: Task Force on Business Responsibility, Working Group on Business Regulatory Framework, Planning Commission (2011)

Endnotes

1 *Sukhasya Mulam Dharma* – the basis of happiness/prosperity is righteousness (ethics).

2 Jamsetji Tata said, "In a free enterprise, the community is not just another *stakeholder* in business, but is in fact the very purpose of its existence".

3 http://en.wikipedia.org/wiki/Evolution_of_corporate_social_responsibility_in_India

4 Muniapan, B & Dass, M., 'Corporate Social Responsibility: a philosophical approach from an ancient Indian perspective', International Journal of Indian Culture & Business Management, Vol 1, No. 4, 2008.

5 http://appliedgandhi.blogspot.com/2008/06/trusteeship-corporate-social.html

6 http://www.mca.gov.in/Ministry/latestnews/CSR_Voluntary_Guidelines_24dec2009.pdf

7 NVGs can be downloaded from: http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

8 IICA was established in mid-2009 with the objective of honing technical skills of public and private sector representatives on various elements of corporate governance, to create a breed of young professionals who are committed to the cause of 'corporate responsibility'.

9 Guidelines Drafting Committee (GDC), which was chaired by Bharat Wakhlu, Director, Tata Group, India and included CSR experts, scholars, industry representatives, NGOs and civil servants

10 57th Report of the Standing Committee on Finance on the Companies Bill (2011) can be seen at: http://www.prsindia.org/uploads/media/Company/Companies%20Bill,%202011%20-%20SCR%20Summary.pdf

11 Draft Companies Bill, 2012 can be downloaded from: http://www.prsindia.org/uploads/media//Company/companies%20bill%202011.pdf

12 Indian Rupees.

13 WG BRF (2011). *Towards Optimal Business Regulatory Governance in India.* Report of the Working Group on Business Regulatory Framework, Steering Committee on Industry, Planning Commission, Government of India. New Delhi.

14 SEBI circular (CIR/CFD/DIL/8/2012), dated August 13th, 2012 is available at:http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344915990072.pdf

15 Ward, H., 'Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock', IFC (World Bank), 2004, USA.

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