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Corporate Social Responsibility: A Legal Framework

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ABSTRACT

The concept of corporate social responsibility is now widely acknowledged as a tool for attaining a company's long-term development objectives. Corporations can no longer be limited in their use of society's resources; they must be socially responsible corporate citizens who contribute to the common good. Nowadays Indian firms have evolved transcend philanthropy to prioritise every stakeholder. All financially driven business actions must take into account both social and environmental effects.

With the Companies Act of 2013, the Indian government adopted a legal strategy to restructure the connection between business and society through required CSR initiatives. Corporate Social Responsibility is increasingly a reality in India. Businesses in India have realised that in order to achieve sustainable development, they must take into account not just the economic, but also the environmental and social implications of their operations. The current research article examines key components of the new CSR regulation. Why and how should corporations support social welfare and economic growth in their home nations, as well as the possible advantages of CSR for enterprises.

Keywords: *Corporate Social Responsibilities, Companies Act, 2013, Sustainable Development, CSR Regulations.*

I. INTRODUCTION

“There is difference between a good company and great company. A good company offers excellent products and services. A great company also offers excellent product and services but also strives to make the world a better place¹”

-William Clay Ford Jr.²

In India, the concept of Corporate Social Responsibility ("CSR") was introduced by the Companies Act of 2013. The Act compelled firms to donate a percentage of their earnings to activities that promote long-term sustainability. The practise of corporate social responsibility seeks to promote social progress while maintaining societal stability.

¹ Author is a student at Amity University, Patna, India.

² William Clay Ford Jr., Chairman of the board and CEO, Ford Motor Company.

With the implementation of Section 135³ of the Act, India has become the first country to put a mandate on enterprises, and as a result, corporations may no longer simply acquire and sell goods and services without considering the society in which they operate. CSR is an acronym that stands for "corporate social responsibility" and refers to firm efforts that benefit society. CSR can take many forms, from contributing a portion of a company's revenues to implementing "greener" business practises. The concept of CSR is based on the concept of give and take. Businesses take resources from society, such as raw materials, labour, and so forth. Thus, by taking part in CSR activities, the Companies contribute to society.

According to **World Business Council for Sustainable Development (WBCSD) definition⁴**: “Corporate Social Responsibility is “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”.

- According to **International Labor Organization⁵** “CSR as a way in which enterprises give consideration to their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors.”
- According to **World Bank⁶** “Corporate Social Responsibilities is commitments of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve quality of life in ways that are both good for business and good for development.”

II. CSR IN INDIA: A LEGAL FRAMEWORK

The Companies Act of 2013 established the idea of corporate social responsibility inside the Indian legal system. For the first time ever in India, it made CSR expenditure and reporting mandatory and subjected Indian corporations' CSR endeavours to corporate law.

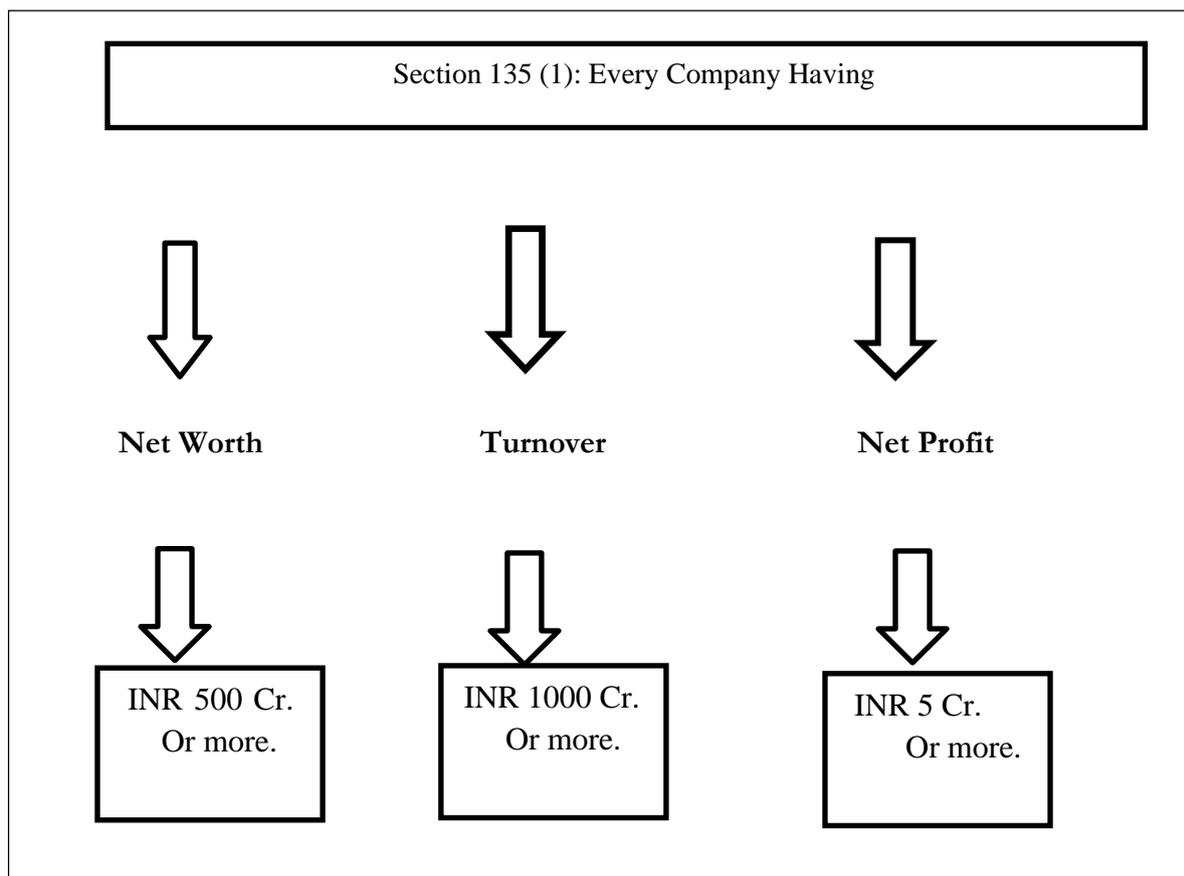
According to section 135 of the Companies Act 2013, the CSR clause is applicable to businesses (including its holding or subsidiary, as well as a foreign company with a branch office or project office in India) that met any of the following requirements during the just-concluded financial year: -

³ The Companies Act,2013 S.135

⁴ <https://www.social-responsibility.at/definitions/world-business-council-for-sustainable-development-2000/>

⁵ <https://libguides.ilo.org/corporate-social-responsibility-en>

⁶ [csr_cover.ai \(worldbank.org\)](https://www.worldbank.org/cover/ai)



- To appoint a CSR Committee of **at least 3 directors** including at least **1 independent director**. However, where a Company is not required to appoint an independent director, it shall have 2 or more directors in its CSR committee.
- Under the guidance of the CSR Committee, spend in every financial year, **at least 2% of the average net profits** of the company made during the 3 immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. The committee is expected to formulate and recommend CSR policy, as well as oversee the implementation thereof⁷.

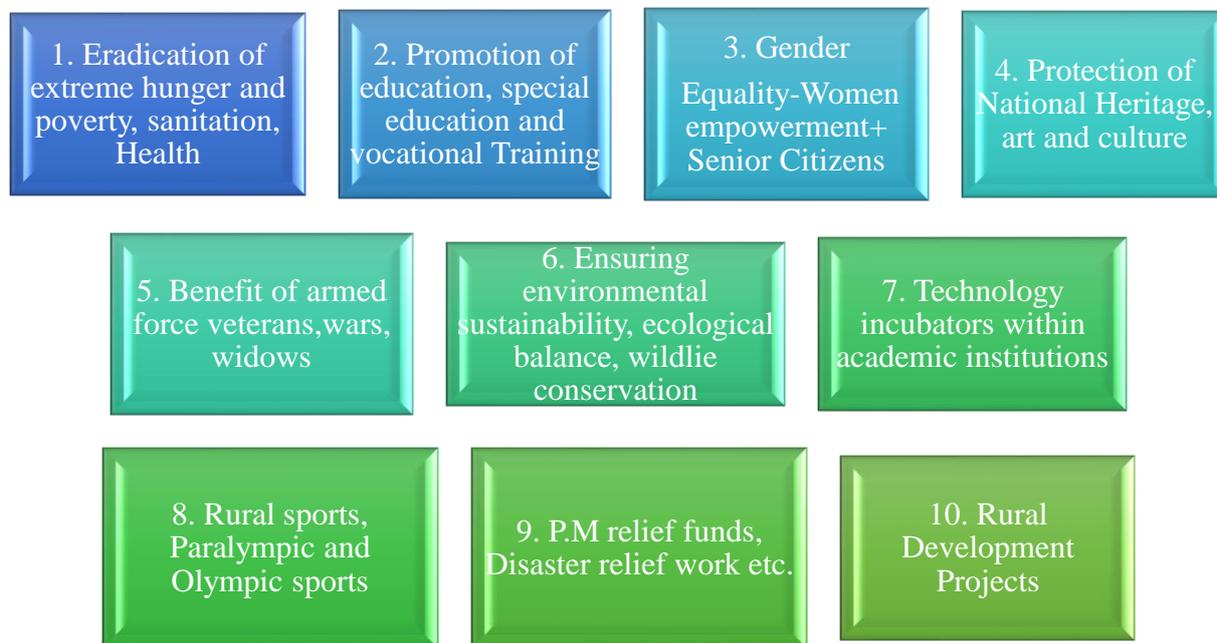
Additionally, the CSR regulations have modified the criteria regarding the presence of 3 or more directors on the Board of the CSR committee, thus the CSR committee can be formed with these 2 directors in cases when a private firm has only 2 Directors.

On the other hand, if the business chooses not to use the money, the Board must explain why in its report. According to the CSR Rules, a corporation is exempt from the CSR duties if it does not meet the specified conditions for three consecutive financial years in a row.

The committee must also make sure that CSR initiatives prioritise the neighbourhood where it

⁷ <https://www.mca.gov.in/MinistryV2/faq+on+csr+cell.html>.

works and the surrounding areas, as required by Schedule VII of the Act. The chart below lists the social responsibility initiatives that the government has planned, as revised on May 30, 2019 includes but not limited to:



III. FINES AND PENALTIES FOR NON- COMPLIANCE

Up until now, if a business did not use up all of its CSR funds in a particular fiscal year, it could carry the money over and use it in addition to the funds designated for that year. According to the CSR changes made under the Act, businesses must now deposit any CSR funds that have not yet been used into a fund specified in Schedule VII of the Act by the end of the fiscal year. If the money is not used within three years of the transfer date, they must be put into one of the designated funds.

Under Section 135 of the Companies Act read with guidelines, there is no explicit punishment for failing to comply with the CSR requirements. However, with the MCA amendment in 2021⁸, the following sanctions are prescribed for failure to comply with the CSR provision:

Section No.	Nature of default	Person responsible	Punishment for Contravention

⁸ CSR Amendment Rules, 2021: A New Paradigm (livelaw.in)

Section 135 Corporate Social Responsibility	Company is in default in complying with the provisions of sub- section (5) or sub- section (6	In Case of Company	Penalty of 2 x amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent CSR Account, as the case may be, or Rs. 100,00,0000/- (One Crore) whichever is less, and
		Every officer of the company	Penalty of 1/10th of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent CSR Account, as the case may be, or Rs. 2,00,000/- (Two lakh) whichever is less.

- Corporate India has dramatically boosted its CSR spending after the application of the required CSR rule in 2014. Companies contributed US\$1 billion to CSR projects in 2018, a 47 percent increase over the amount spent in 2014–15, according to a survey⁷.
- Listed companies in India invested INR 100 billion (US\$1.4 billion) in a range of initiatives, including healthcare, education, and environmental preservation. CSR contributions to the Prime Minister's Relief Fund also increased by 139 percent in the previous year.
- The largest portion of financing (38 percent) went to the education sector, which was followed by support for hunger relief, healthcare, and environmental sustainability (both 12 and 11 percent). Programmes like sports, the armed forces, technological incubators, and eliminating disparities received very little funding.

IV. POTENTIAL BENEFITS OF INVESTING IN CSR

It is safe to assume that businesses have recognised the enormous potential in this field as CSR adoption grows in popularity around the globe. These are only a few of them:

1. Advanced Public Image:

Customers actually prefer businesses that are seen as being less self-centered. People seem to view businesses with social duties to be more approachable, for whatever psychological reason.

The public image of your firm will benefit from messages about its charitable outlook because they show an understanding side of the business. Corporations can accomplish this through donating money or by supporting charitable organisations.

2. Strengthens government relations

Companies must convey a favorable public picture of their seriousness about social responsibility if they want to win over politicians and government authorities. This is the greatest strategy to avoid numerous investigations, probes, or even public campaigns in addition to making interactions with government officials more easily.

3. Employee and Customer Engagement

When you have a fairly compelling message to convey, it becomes simpler to approach potential clients or engage them in conversation. Customers will ultimately start to believe the goals of your business when they become engaged in it. This is obviously not a maneuvering, but with a little social responsibility work, a business can reach more people in fresh ways than it might otherwise. Similar to previous generations, today's youth are aspirational and constantly on the lookout for opportunities to work for organizations that are well-known in the community and frequently featured in the media for their prudent choices.

4. Brand Differentiation

This is one of the original motivations for corporations to integrate CSR. However, given that it is a widespread occurrence, businesses are experimenting with new strategies to increase their goodwill by fulfilling their social obligations. They are not only taking it seriously but also applying a great deal of creativity in order to fulfil their ambitious goals and establish a unique brand for themselves in the marketplace.

5. A productive work environment

Businesses that are concerned about the lives of people outside of their own walls encourage and drive staff to arrive to work each day with enthusiasm. This improves relations between top management and lowest paid employees since they now see the benefits of working together.

Along with this, implementing CSR has other benefits, such as keeping investors who want constant assurance that their money is being spent responsibly, forging strong alliances between for-profit businesses and nonprofits, and bringing out the best in employees. The ultimate goal of every organisation must be to have so many advantages and a vision to be a company that people look upon.

V. COMPANIES PRACTICING CSR IN INDIA

When it comes to voluntarily making donations to social welfare, Indian businesses were always quite giving. However, since it became mandatory, more significant actions have been performed. 460 companies have been identified as CSR contributors for the nation as of 2016. ITC, Tata Group, Infosys, Ambuja Cement, Ultratech Cement, Mahindra & Mahindra, Tata Chemical, and Bharat Petroleum Corporation Ltd. are a few of the industry heavyweights. The businesses listed below are doing everything they can to give back to society:

A. ITC

ITC has long carried out significant CSR initiatives in India. Approximately 2,52,329 kids have received an education from ITC's 2,334 Supplementary Learning Centres. Through 1183 self-help groups, they have also helped to empower about 15378 members who are women.

B. Infosys

The first business that springs to mind as a model of good corporate governance is Infosys, a forerunner in the Indian IT industry. Indeed, Infosys is one of the firms that has set standards for other businesses not only in India but throughout the world in terms of how corporate governance and social responsibility are managed and communicated to the outside world. As one of the early adopters of Corporate Social Responsibility, Infosys. In collaboration with Bangalore Metro Rail Corporation Limited, they have undertaken initiatives such as the restoration of water bodies in Karnataka and the construction of metro stations. They also contribute to sports through their "Go Sports Foundation." Their corporate social responsibility effort also includes a relief fund for Tamil Nadu, Karnataka, and Kerala.

C. Mahindra & Mahindra Ltd.

Mahindra & Mahindra, the Indian vehicle manufacturing behemoth, focuses primarily on education programmes and healthcare services to aid economically and socially underprivileged communities. Its CSR programme funds:

- Scholarships.
- Workforce development.
- Healthcare in outlying places.
- Conservation of water.
- Disaster assistance efforts.

The company runs programmes such as "Nanhi Kali" to focus on girl education and Lifeline

Express to provide healthcare services in distant places.

D. Reliance

Reliance has taken the effort to protect the lives of Balangir district residents. They have a life insurance plan in place for them. The "Education for All" effort was launched to ensure that everyone in India has access to high-quality education. They work to preserve the right to education of disadvantaged children, girls, and people with disabilities. They also make donations to disaster relief funds.

E. Tata Steel Limited

For the past 100 years, Tata Steel has been dedicated to the social development and upliftment of Jharkhand. Their CSR committee's aim is to improve the quality of life in the communities in which they operate. The Tata Group engages in a variety of CSR projects aimed at improving communities and alleviating poverty. It is involved in:

a) Social Security

- Activities promoting women's empowerment.
- Earning a living.
- Development of rural communities.

b) Educational Assistance

- Offering scholarships and endowments to a variety of educational institutions.
- Assistance with child education.

c) Economic Wellbeing

- Managing a variety of agricultural programmes.
- Environmental safeguards.
- Development of infrastructure (hospitals, research centres, sports academies, cultural centres, and educational institutions)

VI. CONCLUSION

According to the findings of the preceding study, the government implemented CSR because it wants firms to become more accountable to their investors and society at large. Corporations are social entities; thus they must care for all stakeholders. It is critical that they carry out this role in an effective manner so that all participants in the organisation are strengthened. Many multinational firms are now utilising volunteer programmes to improve their environmental and

social performance. The ultimate goal of business is to serve society by offering safe, high-quality products and services that increase our well-being without threatening our environmental and communal life support systems.

As a result, businesses must clarify and realign their mission. Corporations are becoming more aware of their societal responsibilities. Organisations in India have been prudent in embracing CSR initiatives and incorporating them into their business processes. There are still certain difficulties in implementing CSR. This is mostly due to the fact that local populations have little or no knowledge of CSR because no genuine efforts have been made to raise awareness of CSR. Lack of transparency is another issue that need attention, but successful collaboration between corporations, non-governmental organisations, and the government can put India's social development on a faster track to achieving sustainable development goals for both firms and nations.
