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Corporate Social Responsibility (CSR) in India: Legal Framework and Impact on Governance & Sustainability

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ABSTRACT

Corporate social responsibility (CSR) has become essential to sustainability and corporate governance. The main topics of this research paper are the legal framework governing CSR in India and its effects on governance and sustainability. India offers a unique backdrop for researching the implementation and outcomes of CSR activities as one of the world's fastest-growing countries with a diversified social fabric. The paper's first section briefly discusses the legislative environment for CSR in India, particularly the Corporate Act of 2013, which made CSR mandatory for enterprises that met specific criteria. It examines the purpose of the legislation that led to this requirement and the changes that followed to strengthen the framework. Additionally, it looks at how regulatory agencies like the Ministry of Corporate Affairs and the Securities and Exchange Board of India (SEBI) monitor and enforce CSR compliance. The research paper examines the corporate practices used by Indian companies and their conformity with sustainable development objectives to assess the influence of CSR on governance. It examines how CSR is incorporated into company strategies, governance frameworks, and reporting processes. The study examines how CSR activities have affected board makeup, stakeholder involvement, and decision-making procedures. It also examines how CSR advances moral behaviour, openness, and accountability inside corporations. It looks into how CSR activities can help with social and environmental problems like reducing poverty, improving healthcare, preserving the environment, and fostering community growth. It examines the sustainability of CSR programmes over the long run and their efficacy in addressing these issues. The report also examines how companies, NGOs, and governments might work together to achieve sustainable results. The findings of this study add to the body of knowledge on CSR by providing details about India's legal system and its effects on governance and sustainability.

Keywords: *Corporate Social Responsibility, Corporate Law, Corporate Act 2013, Corporate Governance in India.*

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I. INTRODUCTION

“The notion of corporate social responsibility, or CSR, originally surfaced in 1953 when HR Bowen’s book “Social Responsibilities of the Business” made it an academic topic.”² Corporate Social Responsibility (CSR) has evolved into a crucial component of modern company practises all over the world. It alludes to the voluntarily undertaken initiatives of businesses to solve social, environmental, and ethical issues outside the bounds of their legal responsibilities. Several activities fall under the corporate social responsibility (CSR) umbrella, including philanthropy, ecological sustainability, moral labour practises, community development, and stakeholder involvement. CSR's roots may be found in early philanthropic activities by company executives who believed in giving back to society. The importance of CSR, however, only became widely recognised in the latter half of the 20th century as the place of corporations in the community was reevaluated. Significant industrial disasters, environmental deterioration, and socioeconomic inequality spurred public discussions on the obligations of enterprises. Since then, due to societal expectations and shifting international conventions, CSR has developed from a voluntary practice to a recognised commercial imperative. Companies implement CSR for a variety of internal and externally driven causes. Internal driving forces include moral principles, a sense of corporate responsibility, and a wish to benefit society. Companies frequently see CSR as controlling risks, improving their brand, and creating enduring bonds with stakeholders. Pressure from clients, investors, authorities, and civil society organisations are examples of external motives. Companies implement CSR practises in reaction to these pressures to show their dedication to sustainability, acquire a competitive advantage, and draw in socially conscious clients and investors. CSR benefits businesses, society, and the environment in several ways. CSR for businesses can improve client loyalty, brand value, and reputation.

Additionally, it can help with retention, engagement, and employee happiness. Companies can reduce risks, promote innovation, and gain a competitive edge by tackling social and environmental challenges. CSR projects benefit society by reducing poverty, promoting education, health care, and community development. CSR also encourages resource conservation, environmental sustainability, and ethical business practices. Corporate Social Responsibility (CSR), which reflects the rising understanding of firms' role in addressing social and environmental concerns, has become an essential component of the business landscape. With the development of a legislative framework that requires specific corporations to engage

² The Challenges of Social Corporate Social Responsibility: Facts for You, May 2013, pp. 38-39.

in CSR efforts, CSR has gained significant relevance in India. This legal framework was established by the Companies Act of 2013, making India one of the few nations to enact legislation to enforce CSR. The adoption of CSR programmes has significantly impacted India's governance and sustainability. India's rapid industrialisation and economic progress have created both benefits and difficulties. Although economic development has improved living conditions, it has also raised social and environmental problems that must be resolved. In response to these difficulties, businesses realised they needed to make a difference in societal well-being and sustainable development. CSR in India has changed from voluntary philanthropy to a legal requirement as a result of the realisation that companies have a duty to the communities and environments in which they conduct business. Due to societal expectations, stakeholder demands, and the understanding of the connection between firms and the larger community, CSR has become an essential component of modern business. Companies can support long-term wealth generation, address social and environmental issues, and contribute to sustainable development by embracing CSR. The importance of CSR in fostering responsible and ethical business practices is growing as the globe struggles with complicated issues.

(A) Research Methodology

A doctoral technique was used in the study for this publication. The vastest majority of the study's data was gathered from secondary sources, including scholarly works, news articles, judicial precedents, and pertinent legislative texts. The study will provide an in-depth analysis of India's CSR implementation and its effects on governance and sustainability, which will critically assess the essential facts, empirical evidence, and expert perspectives.

II. DHARMA-DRIVEN DEVELOPMENT: TRACING THE ORIGINS AND EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY (CSR) IN INDIA

Corporate social responsibility is rooted in India's ancient business practises of "Dharma," which strongly emphasises individuals' and organisations' moral and ethical obligations to society. The traditions of Indian industry included charitable endeavours and support for social welfare. The 20th century saw the development of the current notion of CSR in India as companies began to realise the value of ethical behaviour beyond profit-making. CSR sprang to popularity as a means of addressing social, environmental, and economic problems due to global events and shifting societal expectations. CSR practises in India was primarily voluntary and driven by individual enterprises' endeavours prior to the implementation of required CSR rules. Many Indian companies participated in charitable endeavours, such as giving to charities

supporting healthcare, education, and community development. The Tata Group and Birla Group, two well-known industrial dynasties, contributed substantially to CSR projects and provided models for others to follow. Additionally, many business chambers and industry organisations in India urged their member companies to participate voluntarily in CSR initiatives and support ethical business practices. The Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII) played a crucial role in developing venues and activities for CSR promotion among its member organisations.

III. NURTURING THE ROOTS OF RESPONSIBILITY: UNVEILING INDIA'S CSR LEGAL FRAMEWORK

The primary piece of legislation that established the CSR legal framework in India was the Companies Act of 2013. It lays forth requirements for CSR spending, reporting, and compliance and mandates CSR activity for a specified class of businesses. The Act applies to companies that reach certain financial thresholds and went into force on April 1, 2014³. According to the Companies Act of 2013, qualifying businesses must devote 2% of their annual net income to CSR initiatives⁴. The Act gives businesses the freedom to choose and carry out CSR programmes in accordance with their particular business environment and stakeholder requirements. Companies must provide information about their CSR initiatives and spending in their annual reports, as well as qualitative and quantitative data on the results of their CSR efforts. The Companies Act 2013 outlines several significant CSR provisions in India. The following are some notable provisions:

- **Eligibility:** The Act only applies to businesses that meet specific financial requirements, such as a net worth of 500 crore rupees or more, turnover of 1,000 crore rupees or more, or net profit of 5 crore rupees or more during the previous fiscal year⁵.
- **CSR Committee:** All eligible companies must establish a CSR Committee of the Board of Directors. The committee is responsible for developing and recommending CSR policies and managing the business' CSR initiatives.
- **Expenditure on CSR:** Organisations subject to CSR laws must devote at least 2% of the average net earnings generated over the previous three fiscal years to CSR initiatives. If a business does not achieve the spending threshold, it must explain why in its annual

³ Guidance Note on Corporate Social Responsibility. (2021, June). The Institute of Company Secretaries of India.

⁴ The Companies Act, 2013, §135

⁵ "Section 135. Corporate Social Responsibility | Companies Act Integrated Ready Reckoner|Companies Act 2013|CAIRR" (*Companies Act Integrated Ready Reckoner|Companies Act 2013|CAIRR*) <<https://ca2013.com/135-corporate-social-responsibility/>>

report.

- The Act offers a comprehensive framework for what constitutes qualifying CSR activity:
 - Getting rid of malnutrition, poverty, and hunger.
 - encouraging women's empowerment, gender equality, and education.
 - ensuring the sustainability of the environment.
 - safeguarding national art, culture, and heritage.
 - supporting initiatives for rural development.
 - Improved healthcare, sanitation, and access to clean water.
 - encouraging policies that will help military veterans, war widows, and their dependents.
 - engaging in activities that aid underserved and socially disadvantaged groups.
- Reporting Requirements: Businesses must provide information on their CSR policies, activities, and spending in a separate section of their annual reports. The CSR Committee's membership must also be disclosed, and any funds that haven't been used must be accompanied by an explanation.

There has been a noticeable surge in CSR spending by Indian corporations after the Corporations Act of 2013's CSR rules were enacted. Different industries and businesses have different CSR spending patterns reflecting their objectives and stakeholder demands. While some businesses pursue a diverse strategy and distribute their CSR spending across many areas, others concentrate on a small number of high-impact activities. The patterns in spending show that CSR is becoming increasingly recognised as a strategic investment for long-term sustainability and reputation improvement. CSR investment in India is dispersed throughout several industries, with businesses coordinating their programmes with those pertinent to their operational activities. Education, healthcare, sanitation, rural development, environmental sustainability, skill development, and women's empowerment are among the sectors that frequently receive CSR funding. To solve current sustainability concerns, more funding is required for industries like renewable energy, climate change mitigation, and innovation-driven social enterprises. Companies in India are doing CSR in novel ways that go beyond traditional giving. By articulating CSR programmes with their primary business strategy, they emphasise generating shared value. Some creative ways are programs to help marginalised populations enhance their skills, social entrepreneurship efforts, sustainable supply chain strategies, and

technology-driven social impact solutions. Intense monitoring and evaluation systems, long-term sustainability planning, multi-stakeholder engagement, and effective communication of CSR results are best practices in CSR implementation. A few entities are exempt from the CSR standards, even though the CSR rules of the Companies Act 2013 apply to various companies⁶. These exclusions cover newly incorporated businesses, international firms in India, and businesses with little or no profit.

IV. DRIVING CHANGE: EXEMPLARY CSR INITIATIVES OF LEADING INDIAN CORPORATIONS

Initiatives for CSR by the Tata Group⁷: The Tata Group, one of India's oldest and most prominent corporations, has been a leader in CSR techniques. The organisation has a long history of devotion to social responsibility and has carried out numerous initiatives in numerous industries. One noteworthy instance is the Tata Water Mission, which aims to improve water management procedures and provide access to safe drinking water in rural communities. The initiative has successfully executed water supply projects, rainwater collection systems, and community awareness programmes through collaborations with local and governmental entities. The Tata Power Community Development Trust is an essential effort of the Tata Group that attempts to enhance the standard of living in communities near the company's power plants. Thousands of people and families will benefit from the trust's emphasis on infrastructure, healthcare, livelihood development, and education. The Tata Group also founded the Tata Institute of Social Sciences (TISS) to support social entrepreneurship, capacity building, and research.

Hindustan Unilever Limited's Sustainable Living Plan⁸: Through its Sustainable Living Plan (SLP), Hindustan Unilever Limited (HUL), a major consumer goods corporation in India, has incorporated sustainability into its business model. The SLP focuses on three main areas: promoting livelihoods, decreasing environmental impact, and enhancing health and well-being. HUL has started various programmes under the SLP. As an illustration, consider Project Shakti, which provides rural women in need of empowerment business possibilities as direct-to-consumer sales representatives. This effort has expanded access to health and hygiene supplies in rural communities while improving livelihoods. HUL has also implemented measures to

⁶ "Corporate Social Responsibility" (*Corporate Social Responsibility*) <<https://wirc-icai.org/wirc-reference-manual/part5/corporate-social-responsibility.html>>

⁷ "CSR" (*Tata Sustainability Group*) <<https://www.tatasustainability.com/SocialAndHumanCapital/CSR>>

⁸ "The Unilever Sustainable Living Plan | HUL" (*The Unilever Sustainable Living Plan | HUL*) <<https://hul-performance-highlights.hul.co.in/performance-highlights-fy-2019-20/>>

lessen its environmental impact, including waste management plans, renewable energy adoption, and water conservation projects. HUL has shown its dedication to sustainability through these efforts, which have also had an excellent social and environmental impact.

Initiatives for Sustainability at Mahindra & Mahindra⁹: A well-known Indian automaker, Mahindra & Mahindra, has integrated sustainability into its business strategy through several projects. The company's sustainability framework comprises five pillars: social innovation, biodiversity conservation, waste management, energy efficiency, and trash management. The Mahindra Hariyali programme, which prioritises reforestation and ecosystem restoration, is one noteworthy endeavour. Millions of trees have been successfully planted as a result of the programme, encouraging the preservation of biodiversity and environmental sustainability. Additionally, Mahindra & Mahindra has developed energy-saving procedures throughout all of its businesses, reducing carbon emissions and preserving resources. Additionally, the business supports education, skill development, and inclusive growth through its social innovation projects, such as the Mahindra Pride Schools and the Mahindra All India Talent Scholarship.

V. BEYOND PROFIT: THE FAR-REACHING INFLUENCE OF CSR ON GOVERNANCE, SUSTAINABILITY, AND GLOBAL IMPACT

The influence of CSR on governance is broad-based overall. It improves stakeholder involvement, strengthens board-level governance, encourages openness and responsibility, and boosts brand value and business reputation¹⁰. Stakeholder engagement benefits greatly from CSR since it gives businesses a platform to communicate with and address the needs and expectations of numerous stakeholders. Companies can better understand stakeholders' issues, gain trust, and create enduring connections by actively incorporating them in CSR projects. Engaging stakeholders effectively through CSR can improve decision-making processes, detect and resolve social and environmental concerns, and promote shared responsibility between businesses and their stakeholders. By encouraging diversity, openness, and responsiveness, this engagement eventually helps to improve corporate governance. CSR efforts help corporate governance be more transparent and accountable. Companies must disclose their CSR policies, activities, and expenditures in annual reports, informing stakeholders about their social and environmental effects. Accountability is encouraged by transparent reporting since businesses

⁹ "The Four Key Pillars of Tech Mahindra's Sustainability Framework" (*The Four Key Pillars of Tech Mahindra's Sustainability Framework*) <<https://www.techmahindra.com/en-in/blog/four-key-pillars-techm-sustainability/>>

¹⁰ Mrabure KO, Abhulimhen-Iyoha A and Publishing SR, "Corporate Governance and Protection of Stakeholders Rights and Interests" (*Corporate Governance and Protection of Stakeholders Rights and Interests*, January 2, 2020) <<https://www.scirp.org/journal/paperinformation.aspx?paperid=99093>>

are held accountable for fulfilling their CSR obligations and producing the intended results¹¹. Companies may show their dedication to openness, assess the success of their CSR programmes, and implement necessary modifications by setting up effective monitoring and evaluation procedures. CSR practices that are open and accountable help to fortify the overall governance structure and foster confidence among stakeholders. CSR programmes directly affect a company's reputation and brand value. Businesses that actively engage in CSR and show a dedication to social and environmental problems frequently experience increased goodwill and reputation among stakeholders, including clients, staff, investors, and the general public. CSR initiatives that support stakeholders' beliefs and tackle urgent societal challenges can enhance brand reputation, foster higher investor confidence, and increase customer loyalty and employee morale. A competitive advantage, CSR projects' reputation attracts talent, strengthens market position, and promotes long-term business sustainability.

CSR programmes are essential for advancing environmental sustainability. Through actions like lowering carbon emissions, protecting natural resources, establishing sustainable supply chain practices, and funding renewable energy initiatives, businesses may help protect the environment¹². Companies can reduce environmental hazards and their ecological footprint and aid in preserving and restoring ecosystems by using sustainable business practices. Environmental sustainability-related CSR efforts support long-term environmental stewardship and aid in addressing urgent environmental issues like climate change, deforestation, pollution, and resource depletion. CSR efforts significantly contribute to social sustainability by addressing social problems and enhancing community well-being. Companies can assist social sustainability through programmes that advance healthcare, sanitation, and education, support skill-development efforts, give marginalised populations more power, and encourage inclusive business practices. Companies can support improving underprivileged communities, closing socioeconomic gaps, and promoting social cohesion by investing in social infrastructure, capacity building, and community development. Social sustainability-focused CSR efforts support inclusive growth, the eradication of poverty, and the general enhancement of human welfare. CSR programmes have an impact on long-term economic viability. Companies can support sustainable economic development by incorporating ethical business practices.

CSR initiatives can help local businesses and suppliers, create job opportunities, and promote

¹¹ Chen C-C and others, "The Role of Corporate Social Responsibility and Corporate Image in Times of Crisis: The Mediating Role of Customer Trust" (*PubMed Central (PMC)*, August 4, 2021) <<https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8394849/>>

¹² Karn SK, "Demystifying Corporate Social Responsibility" (*TaxGuru*, May 4, 2023) <<https://taxguru.in/company-law/demystifying-corporate-social-responsibility.html>>

economic development in the areas where they are implemented. Companies can improve economic possibilities and support inclusive economic growth through programmes including skills development, entrepreneurial development, and job creation. Additionally, businesses may support a more sustainable and robust economy by implementing ethical business practices and encouraging fair trade. The Sustainable Development Goals (SDGs) of the United Nations offer a worldwide framework for resolving numerous socioeconomic and environmental issues. CSR projects can be in line with the SDGs because both emphasise social progress and sustainable development¹³. Businesses can combine their CSR strategy with the SDGs by identifying the pertinent goals and coordinating their actions to support their attainment. Companies may increase the efficacy and impact of their programmes and contribute to the larger global sustainability agenda by concentrating their CSR activities on SDG targets.

VI. CONCLUSION

The Indian Companies Act of 2013 changed the game regarding establishing CSR in the nation. The law has promoted increased engagement and investment in social and environmental efforts by requiring eligible corporations to spend a specific amount on CSR activities. In addition to increasing money for diverse projects, this legal framework has also encouraged a change in corporate culture, elevating CSR from a side project to a crucial business obligation. A beneficial cycle of sustainable development has also been established by incorporating CSR into company activities. Companies support initiatives that improve communities' well-being, empower marginalised groups, and advance environmental preservation by investing in programmes tackling urgent social and environmental issues. By improving societal welfare, these measures also decrease the danger of social upheaval, expand market opportunities, and provide a more stable and productive workforce. By implementing CSR, businesses can strengthen their social licence to operate and promote goodwill among many stakeholders. Regarding sustainability, CSR has become a significant motivator for companies to embrace ethical and sustainable practices. Companies are integrating sustainable practices into their ongoing operations and supply chains as they become more aware of the long-term advantages of resource efficiency and environmental conservation. As a result, a more sustainable ecosystem is promoted along the entire value chain. Businesses in India are actively working to achieve the Sustainable Development Goals (SDGs) and match their strategy with global sustainability standards, from lowering carbon footprints to adopting circular economy

¹³ “THE 17 GOALS | Sustainable Development” (*THE 17 GOALS | Sustainable Development*) <<https://sdgs.un.org/goals>>

principles.
