

**ILE COMPETITION
AND COMPANY LAW
JOURNAL**

VOLUME 1 AND ISSUE 1 OF 2023

INSTITUTE OF LEGAL EDUCATION



ILE Competition and Company Law Journal
(Free Publication and Open Access Journal)

Journal's Home Page – <https://cclj.iledu.in/>

Journal's Editorial Page – <https://cclj.iledu.in/editorial-board/>

Volume 1 and Issue 1 (Access Full Issue on – <https://cclj.iledu.in/category/volume-1-and-issue-1-of-2023/>)

Publisher

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THE ROLE OF CORPORATE LAW IN SHAPING CORPORATE SOCIAL RESPONSIBILITY NORMS

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Best Citation – Aadit Saharya, THE ROLE OF CORPORATE LAW IN SHAPING CORPORATE SOCIAL RESPONSIBILITY NORMS, *ILE Competition and Company Law Journal*, 1 (1) of 2023, Pg. 62-67, ISBN - 978-81-961120-6-6.

Abstract:

Corporate Social Responsibility (CSR) is a rapidly evolving concept in the business world that has gained significant traction in recent years. As businesses continue to grow and expand, there is an increasing recognition of the need to balance economic development with social and environmental responsibilities. CSR, therefore, has emerged as a powerful mechanism through which businesses can contribute to sustainable development and create a positive impact on society. This research paper explores the concept of Corporate Social Responsibility (CSR) and its evolution over time, as well as the role of corporate law in shaping CSR norms. The legal framework for CSR varies across different countries and includes regulations, reporting requirements, and other legal obligations. The paper focuses on the Indian legal framework for CSR, including the Companies Act, 2013. The paper also highlights the challenges associated with the Indian legal framework for CSR, including the lack of clarity and uniformity in the definition and scope of CSR and the lack of a standardized reporting framework for CSR activities.

Keywords: Corporate Social Responsibility, business, transparency, accountability, corporate, etc.

INTRODUCTION:

The concept of corporate social responsibility (CSR) refers to a business's responsibility to operate in a way that benefits society and the

environment, in addition to generating profits. CSR has become increasingly important to businesses around the world in recent years as consumers and investors become more socially and environmentally conscious.¹²²

The concept of CSR has evolved significantly over time. In the early 20th century, businesses focused primarily on maximizing profits and providing value to shareholders. However, in the latter half of the 20th century, concerns about social and environmental issues began to grow, leading to the development of the CSR concept. Today, businesses are expected to prioritize CSR in their operations and are held accountable for their social and environmental impact.

Corporate law plays a crucial role in shaping CSR norms by establishing legal requirements and frameworks for companies to operate in a socially responsible manner. The legal framework for CSR varies across different countries, but it generally includes regulations, reporting requirements, and other legal obligations that encourage companies to prioritize CSR. This paper will explore the role of corporate law in shaping CSR norms and how legal frameworks are helping to drive corporate responsibility.

The Companies Act also requires companies to report on their CSR activities in their annual reports, providing transparency and accountability to stakeholders. These legal

¹²² Halina Ward & Craig Smith, Corporate Social Responsibility at a cross road : Futures for CSR in the UK to 2015, INTERNATIONAL INSTITUTION FOR ENVIRONMENT AND DEVELOPMENT 1 (2006).



requirements have helped to drive CSR in India by making it a legal obligation for companies to operate in a socially and environmentally responsible way.¹²³ Furthermore, there are some challenges associated with the legal framework for CSR in India which will be further discussed in this paper.

Research methodology:

The research is carried out using a doctrinal research approach, using data gathered from diverse sources such as case laws, online journal articles, books, research papers as well as online websites.

Overview of Corporate Social Responsibility and Its Evolution:

Corporate Social Responsibility (CSR) refers to the voluntary actions taken by businesses to improve their social, environmental, and economic impacts. CSR involves a range of activities, including philanthropy, environmental sustainability, social responsibility, and ethical business practices.

The evolution of CSR can be traced back to the early 20th century, where businesses began to adopt the idea that they have a responsibility to society beyond just generating profits. However, it wasn't until the 1950s and 1960s that CSR began to gain momentum as a concept. During this time, businesses were increasingly criticized for their environmental and social impacts, and consumers began to demand more socially responsible behavior from corporations.

In the 1970s, CSR became more formalized as a concept, and businesses began to develop formal CSR programs and policies. The 1980s saw the rise of stakeholder theory, which holds that businesses have a responsibility to consider the interests of all stakeholders, including employees, customers, suppliers, and communities. In the 1990s and 2000s, CSR became more integrated into business strategy, and companies began to realize the potential

benefits of CSR, including improved brand reputation, increased employee engagement, and enhanced customer loyalty.

Today, CSR continues to evolve, with a growing focus on issues such as climate change, social justice, and human rights. Businesses are increasingly expected to be transparent about their CSR activities, and to demonstrate a commitment to sustainability and ethical behavior. As such, CSR has become an essential component of corporate strategy for many companies, as they seek to balance their economic goals with their social and environmental responsibilities.

The Legal Framework for Corporate Social Responsibility:

The legal framework for Corporate Social Responsibility (CSR) varies from country to country, as there is no universal law governing CSR. However, there are several international standards and guidelines that provide guidance for companies on how to conduct their CSR activities such as The UN Global Compact¹²⁴ that is a voluntary initiative that encourages businesses to adopt sustainable and socially responsible policies and practices. Companies that join the Global Compact commit to ten principles relating to human rights, labor, environment, and anti-corruption.¹²⁵ Laws and regulations that govern CSR vary by country and region. In the United States, for example, the Sarbanes-Oxley Act¹²⁶ requires publicly traded companies to disclose their social and environmental impact in their annual reports. Other countries have similar laws and regulations that require companies to report on their CSR activities.

In recent years, India has emerged as a significant player in the global CSR landscape. The Indian government has introduced several legal frameworks to promote CSR, including the

¹²³ Corporate Social Responsibility (CSR): An Overview of the Indian Perspective, (2016) 3.1 IJLPP 1

¹²⁴ The United Nations Global Compact of 2015

¹²⁵ KMPG - ASSOCHAM, Corporate Social Responsibility - Towards a Sustainable Future : A White Paper (2008) at 7-8, (15 July, 2016), <http://www.kpmg.com>.

¹²⁶ The Sarbanes-Oxley Act of 2002



Companies Act, 2013¹²⁷, which mandates that companies with a net worth of INR 500 crore or more, or a turnover of INR 1,000 crore or more, or a net profit of INR 5 crore or more in a fiscal year, are required to spend at least 2% of their average net profits of the preceding three financial years on CSR activities. The Act requires companies to disclose their CSR policies and activities in their annual reports, including the amount spent on CSR and the impact of the activities undertaken. Failure to comply with the CSR provisions of the Act can result in penalties, including fines and legal action.

Apart from the Companies Act, there are also other laws and regulations in India that require companies to act in a socially responsible manner. For example, the Companies (Corporate Social Responsibility Policy) Rules, 2014¹²⁸, provide guidelines for companies on the implementation of their CSR activities. Additionally, there are laws that require companies to report on their environmental impact and comply with certain labor standards.¹²⁹

The Role of Corporate Law in Shaping Corporate Social Responsibility Norms:

Corporate law plays a critical role in shaping CSR norms and ensuring that companies adhere to them. Legal frameworks are driving CSR in several ways, including:

Establishing Legal Requirements for CSR:

Corporate law establishes legal requirements for CSR, such as reporting requirements and penalties for non-compliance. These legal requirements help to drive CSR by making it a legal obligation for companies to operate in a socially and environmentally responsible way.

Providing Incentives for CSR: Corporate law also provides incentives for CSR, such as tax breaks and other financial incentives. These

incentives encourage companies to prioritize CSR in their operations.

Promoting Transparency and Accountability:

Corporate law promotes transparency and accountability by requiring companies to report on their social and environmental impact. This transparency helps to hold companies accountable for their actions and drives them to prioritize CSR.¹³⁰

Encouraging Shareholder Activism:

Corporate law also encourages shareholder activism, allowing shareholders to use their influence to push companies to prioritize CSR.

The effectiveness of legal frameworks in shaping CSR norms depends on several factors, including the strength of the legal requirements and the willingness of companies to comply with them.

challenges associated with the legal framework for CSR in India:

There are several challenges associated with the legal framework for Corporate Social Responsibility (CSR) in India. One major challenge is the lack of clarity and uniformity in the definition and scope of CSR. The Companies Act does not provide a specific definition of CSR, which has led to confusion among companies about what constitutes CSR activities. This lack of clarity can make it difficult for companies to understand their legal obligations and for regulatory authorities to enforce compliance. Another challenge is the lack of a standardized reporting framework for CSR activities. While the Companies Act requires companies to report on their CSR activities, there is no standardized reporting format, which makes it challenging to compare and analyze the CSR activities of different companies.¹³¹

Additionally, some companies may view CSR as a box-ticking exercise or a way to fulfill legal

¹²⁷ the Companies Act, 2013

¹²⁸ Companies (Corporate Social Responsibility Policy) Rules, 2014

¹²⁹ Corporate Social Responsibility and Covid 19 Crisis: Analysing the Role of Indian Companies, 5 UPES LR (2020) 129

¹³⁰ Companies Act 2013: Redefining Corporate Social Responsibility, 24 ALJ (2016-17) 265

¹³¹ Seema Sharma, "Corporate Social Responsibility in India-Emerging Discourse & Concerns", THE INDIAN JOURNAL OF INDUSTRIAL RELATIONS, Vol. 48 No. 4 2013 at 585-586.

obligations rather than a genuine commitment to social and environmental responsibility. This can result in a lack of meaningful impact from CSR activities. There is also a need for better monitoring and enforcement of CSR regulations. While penalties exist for non-compliance, enforcement is often weak, and there have been cases of companies failing to meet their CSR obligations without facing significant consequences. Finally, there is a need for greater transparency and accountability in the CSR process. Companies must be transparent about their CSR activities, including the amount spent and the impact of their initiatives, to ensure that they are meeting their obligations and making a meaningful contribution to society and the environment.¹³²

Government Initiatives:

Corporate Social Responsibility (CSR) has become an important aspect of corporate operations in India, with the government taking several initiatives to promote and regulate CSR activities. These initiatives have been aimed at encouraging companies to invest in social and environmental causes, to contribute towards nation-building and sustainable development. Here are some of the key initiatives launched by the Indian government to promote CSR:

1. **The Companies Act, 2013:** The Companies Act, 2013 introduced Section 135¹³³, which mandates¹³⁴ that companies with a net worth of INR 500 crore or more, or a turnover of INR 1,000 crore or more, or a net profit of INR 5 crore or more, are required to spend at least 2% of their average net profit of the preceding three financial years on CSR activities. This has been a significant step in promoting CSR among large companies in India.

2. **National CSR Portal:** The Indian government has launched the National CSR Portal to provide a platform for companies to share information on their CSR activities and collaborate with other stakeholders. The portal enables companies to register and file their annual CSR reports, monitor their CSR spending, and collaborate with other companies, NGOs, and government agencies on CSR initiatives.
3. **Swachh Bharat Abhiyan (Clean India Campaign):** The Swachh Bharat Abhiyan is a national cleanliness campaign launched by the government in 2014. The campaign aims to create a clean and hygienic India by 2022. The campaign has encouraged companies to engage in CSR activities related to waste management, sanitation, and hygiene.
4. **Skill India Initiative:** The Skill India Initiative is a government program launched in 2015 to provide skill development training to the youth of India. The initiative aims to provide vocational training to over 400 million people in India by 2022. The initiative has provided opportunities for companies to engage in CSR activities related to skill development and employability.
5. **Start-up India:** The Start-up India initiative was launched by the government in 2016 to promote entrepreneurship and innovation in the country. The initiative aims to provide a conducive ecosystem for startups to grow and flourish. The initiative has provided opportunities for companies to engage in CSR activities related to innovation and entrepreneurship.
6. **Digital India:** The Digital India initiative was launched by the government in 2015 to transform India into a digitally empowered society and knowledge economy. The initiative aims to provide

¹³² Divya Mehta & Monica Aggarwal, Making Corporate Social Responsibility Mandatory in India : Prospects and Problems, *IMPACT : INTERNATIONAL JOURNAL OF RESEARCH IN BUSINESS MANAGEMENT* 26, Vol. 3 Issue 5

¹³³ Section 135 of The Companies Act, 2013

¹³⁴ Corporate Social Responsibility in the Companies Act, 2013: Voluntary or Mandatory?, (2014) PL November 64



universal digital literacy, digital infrastructure, and digital services to all citizens of India. The initiative has provided opportunities for companies to engage in CSR activities related to digital literacy and digital infrastructure.

7. **Atmanirbhar Bharat (Self-Reliant India):** Atmanirbhar Bharat is a government initiative launched in 2020 to promote self-reliance and self-sufficiency in the country. The initiative aims to boost local manufacturing, promote innovation, and create employment opportunities in the country. The initiative has provided opportunities for companies to engage in CSR activities related to local manufacturing, innovation, and employment generation.

In addition to these initiatives, the Indian government has also provided tax incentives for companies engaged in CSR activities. Companies can claim tax exemptions on their CSR spending under Section 80G of the Income Tax Act¹³⁵. The government has also introduced a provision to carry forward unspent CSR funds for a period of three years, providing companies with more flexibility in their CSR spending.

Case Studies:

Tata Group and Mahindra & Mahindra are two of India's largest and most respected corporate houses, known for their commitment to social responsibility and sustainability. Here are some examples of their CSR initiatives:

Tata Group:

Tata Steel: Tata Steel has implemented several CSR initiatives in the areas of education, health, and livelihoods. One of its most notable initiatives is the Kalinganagar project, which aims to improve the quality of life of the local communities in Odisha through education, healthcare, and livelihood programs. The company has also implemented a community-based health program called "Arogya" that

provides healthcare services to over 7,000 families in the region.

Tata Motors: Tata Motors has implemented several initiatives in the areas of education, skill development, and environmental sustainability. One of its notable initiatives is the "Tata Motors Skill Development Institute," which provides training to underprivileged youth in the areas of automobile manufacturing, automotive repair, and maintenance.

Mahindra & Mahindra:

Mahindra & Mahindra has implemented several CSR initiatives in the areas of agriculture, education, and health. Its "Nanhi Kali" program aims to provide education and support to underprivileged girl children in India. The program has supported over 400,000 girls in 10 states across India. The company has also implemented several initiatives in the areas of renewable energy and environmental sustainability, including the installation of solar-powered streetlights and the development of a green campus initiative.¹³⁶

These examples demonstrate how companies like Tata Group and Mahindra & Mahindra have implemented innovative and impactful CSR initiatives in India, contributing to the social and environmental development of the country.

Conclusion:

Corporate law has played a critical role in shaping CSR norms, providing a legal framework for companies to prioritize social and environmental responsibility in their operations. The legal framework has also established standards for CSR reporting and disclosure, increasing transparency and accountability. However, there is a need to continue to strengthen the legal framework and ensure its effective implementation to promote sustainable development and accountability in corporate operations. It is essential to recognize

¹³⁵ Section 80G of The Income Tax Act, 1961

¹³⁶ Pooja Srivastava & Surabhi Goyal, The pre and post legislative development of CSR in India : A case illustration of Mahindra and Mahindra, ASIAN JOURNAL OF MANAGEMENT RESEARCH 459, Vol. 5 Issue 3, 2015.



that corporate social responsibility is not just a legal obligation but a moral responsibility, and companies must embrace this responsibility to contribute towards the betterment of society and the environment.