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## Corporate Social Responsibility under Indian Perspective

### Abstract

Long before the Companies Act of 2013 introduced the Corporate Social Responsibility (CSR) policy, the concept of CSR was deeply embedded in Indian society. Even while the phrase itself might seem recent, its origins can be found in antiquity, particularly in the Mauryan period, when the eminent philosopher Kautilya highlighted the need of integrating moral values and practices into corporate operations. Even if the phrase "CSR" was not used specifically, the idea behind it has been employed since then, if not before. India is now among the fastest-developing countries as a result of substantial economic liberalization that has occurred in recent decades. A significant portion of the population still lacks access to basic utilities, indicating an imbalance in growth, even though both the public and private industrial sectors have been successful in creating significant wealth. CSR stands for corporate social responsibility, which is the voluntary commitment made by businesses to better the environment and society. These duties include not just the wellbeing of society but also the welfare of the workforce.

*Keywords: Corporate Social Responsibility, Companies Act, Social Impact Initiatives, Sustainable Business Practices, Environmental Sustainability*

### Introduction

Operating a corporation with the goal of improving its social effect while also accomplishing financial goals like growth and revenue targets is known as Corporate Social Responsibility (CSR). This might entail reducing carbon footprints or implementing eco-friendly habits. CSR may be included into larger campaigns or run as a stand-alone project. The idea that businesspeople have social obligations is not a new one, especially in India, where large mosques, temples, dharmshalas, and prestigious schools can all attest to this. Indian literature is full of historical narratives of businessmen who went above and beyond the call of duty to save monarchs and entire civilizations from dire circumstances.<sup>1</sup> Numerous Indian businesses are well known for going above and above what is required of them by the government in proactively protecting the interests of their workers and the communities in which they operate.

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<sup>1</sup> Rai, Shashank, & Kantamneni, Sai Snigdha. (2021). Corporate social responsibility in india. *Jus Corpus Law Journal*, 2(1), 709-718.

Over the past 25 to 30 years, India's economy has been significantly liberalized, placing it among the world's developing economies. Even while the private and public industrial sectors have been quite successful in creating wealth, unequal growth has left a significant segment of the population without access to basic utilities. Taking notice of this inequality, the government has encouraged business to use a percentage of its profits to support social development and the advancement of individuals.<sup>2</sup>

India replaced the Companies Act of 1956 with the 2013' Act, which included Section 135, also known as the CSR guidelines, on April 1, 2014. India became the first nation to enact such restrictions with this action. Before it was put into effect, discussions around Section 135 proved to be contentious. According to their size, the clause requires businesses to participate in CSR activities and provides recommendations for how money should be allocated, used, tracked, and put into practice.

Various kinds of CSR are adopted by businesses according to their size and character. It's crucial to remember that implementing CSR benefits society in addition to improving a company's brand and promoting expansion. Any business that exceeds a certain turnover level must implement and support CSR initiatives, adjusting their strategies based on the resources at hand and the state of the economy. Therefore, CSR outlines an organization's obligations for improving society and the environment, reflecting the social and environmental responsibilities of a person.

### **Research Questions**

- Since the Companies Act of 2013 was passed, how has CSR been implemented in Indian companies?
- What are the main obstacles and complaints that businesses in India experience while trying to comply with CSR regulations?
- How much do prosperous CSR activities add to the overall prosperity and standing of Indian businesses?

### **Research Objective**

- To evaluate the degree of compliance and adherence to CSR rules, as well as the effect of the enterprises Act, 2013, on the execution of CSR activities across Indian enterprises

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<sup>2</sup> Kumar, Saurabh. (2023). Corporate Social Responsibility in India. *Indian Journal of Law and Legal Research*, 5, 1-23.

- To look into how regulatory agencies in India create and implement CSR laws.
- To investigate the extent, breadth, and results of CSR projects carried out by Indian firms and their effects on local communities and sustainable development in order to evaluate the efficacy of CSR programs in solving social and environmental challenges in designated sectors.

### **The Concept of Corporate Social Responsibility**

Prior to the 1850s industrial revolution, religious ideas had a significant impact on CSR. Prior to industrialization, Vedic philosophy argued that the main use of money is to satisfy social necessities, and that giving to charity for the benefit of others is the most advantageous use of wealth. Following the British introduction of Western industrialization to India, certain families from the old merchant groups (including Birla, Bajaj, Tata, Modi, Godrej, Singhania, and Mahindra) were heavily involved in charitable CSR projects.<sup>3</sup>

Gandhi's trusteeship theory, which stressed that capitalists should be acknowledged as trustees of entrusted assets, subject to their socially conscious behaviour, had a profound effect on India's post-independence growth.<sup>4</sup> Many Indian academics shared this viewpoint, which had an impact on international information exchange and gave the Indian government the knowledge it needed to enact successful legislation, making India the first nation to require CSR.

The passage of the Companies Act is seen as a step in the right direction toward ensuring that businesses contribute to equitable and sustainable economic growth in a nation like India, where 400 million people live on less than ₹102 per day, two-thirds of the population lack access to basic sanitation, and one-third of the population is illiterate. Businesses in India have a plethora of CSR possibilities and problems due to the country's enormous demands.<sup>5</sup> In contrast to the voluntary CSR initiatives usually carried out by corporate houses, the new CSR rules place a legal and increased requirement on businesses to set up a clear structure and procedures for strict compliance. According to Indian courts, a company's responsibility goes beyond meeting the demands of its shareholders to include resolving societal problems that the country faces.

<sup>3</sup> Haque, Abdul Jabbar. (2016). Corporate social responsibility (csr) and the environment protection in india: an analysis under the companies act, 2013. *Indian Journal of Law and Justice*, 7(2), 173-192.

<sup>4</sup> Sharma, S. G. (2009). Corporate social responsibility in india: an overview. *International Lawyer (ABA)*, 43(4), 1515-1534.

<sup>5</sup> *Supra* note 3.

## **Regulatory Framework**

One of the key pieces of legislation that shaped CSR in India is the Companies Act of 2013. Section 135 of the Act mandates that businesses that meet certain criteria contribute a part of their profits to corporate social responsibility programs. This clause applies to companies that, at the end of any fiscal year, have a net worth of at least ₹500 crores, a turnover of ₹1,000 crores, or a net profit of at least ₹5 crores. According to the Act, businesses that meet these requirements have to create a CSR committee, develop a CSR strategy, and provide funding for projects that fit within the designated target areas.

India's Ministry of Corporate Affairs (MCA) is a key player in supervising and controlling CSR initiatives. It acts as the main regulatory agency in charge of making sure the Companies Act of 2013's CSR obligations are followed.<sup>6</sup> To help businesses meet their CSR responsibilities, the MCA publishes guidelines and explanations. In an effort to strike a balance between promoting corporate responsibility and making sure that companies are viable and competitive, the Ministry also maintains control over the registration and oversight of CSR operations.

Businesses having CSR responsibilities must make sure the prescribed rules are followed. Establishing a board-member-led CSR committee, creating a CSR policy, and adhering to the established spending guidelines are all examples of compliance. The Act places a strong emphasis on responsibility and openness, requiring businesses to include information about their CSR initiatives in their annual reports. The criteria for reporting include information on the CSR policy, projects that are carried out, money that is allotted, and the results of these endeavours. By improving transparency and fostering a culture of responsible business practices, the compliance and reporting systems let stakeholders assess the true effect of CSR activities. Moreover, non-compliance can result in fines or other legal repercussions, demonstrating how seriously the legal system takes compliance with CSR.

## **Companies Act and Corporate Social Responsibility**

A corporation that satisfies the requirements listed in sec. 135(1) is required by law to form a board committee called the CSR Committee. Three directors are required at minimum for this body, one of whom must be an independent. Interestingly, some businesses are not required to have an independent director or a CSR committee. These include businesses, such as private

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<sup>6</sup> Reddy, T. R. (2023). An Overview of Corporate Social Responsibility in India. *Indian Journal of Law and Legal Research*, 5, 1-8.

firms or unlisted public companies covered by sec. 135(1) that are not required to have independent directors under sec. 149(4) of the Act. If there are just two directors on the board of a private firm, they ought to create the CSR Committee.<sup>7</sup>

It is required that international companies falling under these requirements establish a CSR Committee comprising of a minimum of two members. One of them needs to fulfil the requirements listed in section 380(1)(d) of the Act, and the foreign firm has to select the other. According to section 380(1)(d), a "person" is any person who resides in India and is permitted to take papers and process on behalf of the company. According to the Act's terms, Businesses are eligible for CSR if they have had a net profit ₹500 crores or more over the last three fiscal years, if their turnover has exceeded one thousand crore rupees, or if their net worth has exceeded five hundred crore rupees. Businesses that meet the prerequisites have to establish a "CSR Committee of the Board" with a minimum of three directors, one of whom needs to be an independent. In 2014, the CSR policy was approved.

Furthermore, the Act's section 134(3) requires the board's report to disclose this composition. This obligation applies to international corporations operating in Indian territory as well as Indian enterprises. The purpose of this article in the Act is to incentivize businesses to utilize two percent of their average net profit over the previous three fiscal years for CSR initiatives that promote societal growth and well-being. According to the ministry's proposed regulations, "net profits" means gains realized prior to tax payment based on the company's financial statements; income from branches outside of India are not included. To ascertain whether a company is eligible to incorporate a CSR policy, particularly in the case of foreign companies under 3(1) of the CSR scenarios, the average net profit, as specified under section 135 of the Act, must be calculated in compliance with the provisions mentioned in section 198 and section 381(1)(a) of the Act.

#### *Schedule VII of the Companies Act, 2013*

Section VII of the Act has been amended by the Ministry Council of India by adding a new paragraph on CSR. This schedule outlines doable initiatives that businesses may implement as a component of their CSR strategies. The activities that are listed include a variety of topics, such as environmental challenges, societal concerns, and critical services. Companies are free

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<sup>7</sup> Gupta, Dhanishtha, & Maddula, Lakshmi Sri Lekha. (2021). Corporate social responsibility. *Jus Corpus Law Journal*, 2(2), 312-323.

to use their cash for poverty reduction, sanitization, and the supply of clean drinking water and sanitation as long as they follow CSR regulations.

Businesses can also support a wide range of other causes, including but not limited to gender equality, women's empowerment, the creation of shelters for women and orphans, senior citizen facilities like old age homes and daycare centres, and environmental issues like agroforestry, animal welfare, and the preservation of national heritage, art, and culture. Ensuring consistency with their own CSR policies, eligible organizations under the CSR policy may elect to support one or more of the themes and activities listed in Schedule VII.

#### *Penalty for Non-Compliance of CSR*

Should an industry's conditions make it impossible for it to comply with CSR rules, namely section 135(5) and section 135(6), the industry or firm would be held accountable. In such instances, the funds specified in schedule VII shall receive a penalty equal to double the initial amount or one crore rupees, whichever is smaller. As an alternative, the penalty money might be applied to CSR accounts that have not yet been used. Furthermore, each executive of the corporation shall be held responsible and obligated to deposit one-tenth of the requisite amount to the specified funds in schedule VII, the unspent CSR account, or 2 lakh rupees, whichever is less.<sup>8</sup>

To guarantee that the CSR requirements of the act are followed, the government may provide corporations instructions as it sees fit. A firm is not required to organize a CSR committee, if its necessary expenditure under section 135(5)(1) does not exceed ₹50,000. Rather, the board of directors of the firm is in charge of carrying out the committee's duties as specified in the CSR regulations.<sup>9</sup>

#### **Challenges and Criticisms**

One of the biggest challenges facing CSR in India is the ongoing lack of enforcement and oversight systems. While the Act of 2013 requires qualifying firms to engage in CSR activities, there is inconsistent application of these regulations. The success of CSR activities is severely hampered by the lack of a strong legislative framework for compliance monitoring. This loose enforcement encourages doubts about how seriously corporate organizations take their social duties, enabling some businesses to skirt or participate in CSR only to a minimal degree.

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<sup>8</sup> Gaurav, Kumar, & Vaswani, Muskan. (2022). Corporate Social Responsibility and Its Legal Aspect in India. *International Journal of Law Management & Humanities*, 5, 2394-[ccxxii].

<sup>9</sup> *Id.*

Transparency and accountability, two essential pillars, are critical to the integrity and success of CSR activities in India. A lot of businesses face criticism for their lack of transparency when it comes to their CSR expenditure, which makes it difficult for stakeholders to assess the true impact of these initiatives. The lack of standardized measurements is a result of inconsistent reporting techniques and different approaches to assessing social effect. The public's ability to hold businesses responsible for their promises is hampered by this opacity. Improving reporting procedures' openness and developing uniform criteria to evaluate the impact of CSR are crucial in addressing these problems.

For firms operating in India, striking a balance between social duty and commercial objectives is a complex problem. Even if making money is a company's main goal, a sincere dedication to social concerns can occasionally be eclipsed by the pursuit of financial gain. When deciding how to divide resources between boosting earnings and funding socially conscious projects, businesses run into internal difficulties. Making sure that CSR initiatives are in line with the company's values and make a significant contribution to social well-being without sacrificing economic viability is essential to effectively addressing this difficulty.<sup>10</sup> This need a sophisticated strategy that combines moral corporate conduct with a genuine desire to have a positive social influence. This problem is made more difficult by external forces that prioritize short-term financial advantages over long-term sustainable practices, including as market rivalry and shareholder expectations. In order to effectively address this problem, business operations must adopt a strategic and integrated strategy that integrates social responsibility into the organization's basic principles.<sup>11</sup>

### **Recommendations**

The public's overall lack of knowledge about CSR is a significant obstacle. Stakeholders must take proactive steps to distribute thorough information using a variety of media channels, such as articles, television shows, and press releases, in order to successfully address this issue. The purpose is to provide a wide range of CSR projects with the goal of favourably influencing public attitudes and promoting a deeper comprehension of the societal contributions that firms make.

A more deliberate and methodical approach is needed to improve collaborative projects amongst stakeholders, which include the public and private sectors, corporate workers,

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<sup>10</sup> Banerjee, Udayaditya. (2009). Corporate social responsibility & corporate governance. *Journal on Governance*, 1(1), 85-98.

<sup>11</sup> *Id.*

government agencies, local authorities, and communities. Establishing more robust grassroots relationships is essential to creating an atmosphere that allows CSR programs to be easily incorporated into real-world, hands-on implementations. Building positive relationships with important stakeholders is essential to ensure that CSR plans are implemented in a way that is both meaningful and sustainable.

One common drawback of CSR initiatives is that they tend to focus mostly on cities, therefore neglecting rural communities. Expanding CSR initiatives to rural areas and tackling basic requirements like education, basic sanitation, and strong labour support networks are critical steps that businesses should take to increase their reach. This inclusive strategy, which takes into account the various demands of both urban and rural areas, guarantees a more thorough and all-encompassing influence on society.

The government's involvement is essential in identifying and rewarding businesses who use CSR to improve the lives of impoverished populations. Adopting and rewarding such initiatives through policy can operate as a catalyst, encouraging more businesses to embrace and successfully use CSR principles. This in turn starts a positive feedback loop that makes CSR an essential component of how businesses operate.

The incorporation of CSR principles into school curricula and student seminars can play a crucial role in increasing public awareness. Teaching the next generation about important social and economic concerns and emphasizing CSR's potential as a potent weapon for positive change can help students become more aware of and sensitive to the complex problems that society faces on a daily basis. The goal of this educational strategy is to imbue future leaders and decision-makers with a feeling of accountability and ethical awareness.

## **Conclusion**

The notion of CSR, which has been incorporated into legislation recently, is not new; it has been developing steadily for a long time. CSR is the term used to describe a company's self-imposed obligation to better society and the environment, encompassing not just social issues but also employee welfare. It is noted that, depending on their financial situation and resources, businesses donate a percentage of their income to CSR. The implementation of CSR may entail investing in programs that improve society and promote favourable environmental changes but may not immediately provide financial rewards. A CSR committee must be established in order for a company to engage in CSR activities, as per sec. 135(1) of the act. According to the guidelines in Schedule VII of the Act, these companies must donate 2% of their average net revenue for the preceding three fiscal years to the betterment of society. Although these

regulations have been in existence for a while, they have not yet been fully implemented. Effective CSR implementation may improve a company's reputation while also benefiting the environment in a world where people are becoming more conscious of social issues. As a result, the CSR framework's effective integration is essential to the nation's economic and social advancement.

