

## THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY WITHIN LEGAL FRAMEWORKS

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### ABSTRACT

*This study explores the multifaceted influence of Corporate Social Responsibility (CSR) within legal environments. In the ever-evolving landscape of corporate governance, the integration of CSR practices has become a pivotal force in shaping legal frameworks. This abstract delves into the intricate dynamics between responsible corporate conduct and the legal landscape, aiming to unravel how CSR initiatives not only ensure legal compliance but also redefine and shape the contours of legal environments. Through a comprehensive examination of relevant literature, case studies, and real-world examples, the study seeks to elucidate the symbiotic relationship between CSR and legal frameworks. Key areas of focus include the impact of CSR on legal compliance, ethical considerations, corporate governance structures, and the challenges and criticisms associated with aligning CSR goals with legal obligations. By providing insights into the interplay between CSR and legal contexts, this study contributes to a deeper understanding of the role of responsible business practices in fostering a harmonious convergence of social and legal imperatives. Moreover, the various facets of corporate social responsibility (CSR), as well as how it relates to environmental sustainability and ethical business practices, will all be covered in this article.*

**Keywords:** Legal Framework, Challenges, Ethical Practices.

### INTRODUCTION

Corporate Social Responsibility (CSR) has emerged as a crucial component of Indian industry. Under the Companies Act of 2013, certain enterprises can set aside a certain percentage of their profits to meet their corporate social responsibility obligations. This contributes to the good impact these companies have on society and the environment. In the dynamic landscape of contemporary business, the notion of Corporate Social Responsibility (CSR) has transcended beyond mere philanthropy, evolving into a strategic imperative that resonates within legal

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frameworks. As corporations navigate the complex intersection of profitability and societal well-being, the impact of CSR within legal settings has become a subject of profound significance. This introductory exploration delves into the intricate dynamics between corporate responsibility and the legal landscape, seeking to unravel how conscientious business practices not only comply with legal norms but also shape and redefine the contours of legal environments. By examining the symbiotic relationship between CSR and legal frameworks, we aim to uncover the nuanced ways in which responsible corporate conduct influences the course of business jurisprudence, fostering a terrain where social and legal imperatives converge for the greater good.<sup>1</sup>

However, Corporate Social Responsibility (CSR) has emerged as a pivotal concept in the realm of business ethics and sustainability, influencing how companies interact with society and the environment. Within legal environments, the impact of CSR is profound, shaping corporate behavior and accountability. Likewise, CSR, at its core, embodies the idea that businesses have a responsibility not only to their shareholders but also to a broader set of stakeholders, including employees, customers, communities, and the environment. It encompasses voluntary actions that go beyond mere compliance with laws and regulations, focusing on ethical practices, environmental stewardship, and social welfare initiatives. By integrating CSR into their operations, companies aim to create long-term value while contributing positively to society.<sup>2</sup>

Moreover, legal environments play a crucial role in shaping the boundaries within which businesses operate. Laws and regulations set forth by governments establish the minimum standards that companies must adhere to in areas such as labor practices, environmental protection, consumer rights, and corporate governance. Therefore, the intersection of CSR with legal requirements presents both opportunities and challenges for organizations seeking to balance profit-making objectives with social and environmental considerations. As businesses navigate an increasingly complex web of regulations and societal expectations, understanding how CSR influences their interactions within legal frameworks is essential. By exploring the influence of CSR within legal environments, this article sheds light on how companies can leverage their commitment to social responsibility to not only comply with legal mandates but also foster sustainable practices that benefit both society and the bottom line.

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<sup>1</sup> (upscale legal, Oct 26, 2023) <<https://upscalelegal.medium.com/corporate-social-responsibility-exploring-the-legal-aspects-of-csr-sustainable-practices-and-d89da53d2892> > accessed 29 February 2024

<sup>2</sup> (upscale legal, Oct 26, 2023) <<https://upscalelegal.medium.com/corporate-social-responsibility-exploring-the-legal-aspects-of-csr-sustainable-practices-and-d89da53d2892> > accessed 29 February 2024

## MEANING OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate Social Responsibility (CSR) is a business model that helps companies be socially accountable to themselves, their stakeholders, and the public. It involves a company operating in ways that enhance society and the environment, rather than contributing negatively to them. CSR can be broken down into four main categories: environmental impacts, ethical responsibility, philanthropic endeavors, and financial responsibilities. However, Companies that adopt CSR programs often grow their business to the point where they can give back to society, and it is typically a strategy implemented by large corporations. As such, CSR is a self-regulating approach that can help improve various aspects of society, promote a positive brand image, and raise morale in the workplace.

## REGULATORY FRAMEWORK OF CSR

One of the main provisions, along with Schedule VII of the Companies Act and the Companies (CSR Policy) Rules 2014, is Section 135 of the Companies Act, 2013. These are the three main components that make up India's CSR framework. Businesses that satisfy certain financial requirements are required by law to devote a minimum of 2% of their average net profit over the previous three years to the CSR initiatives listed in Schedule VII.<sup>3</sup> However, CSR concerning a Company means a social responsibility of a company towards society or in the area, in which it operates its business. Further, "Corporate Social Responsibility (CSR)" means the activities undertaken by a Company in pursuance of its statutory obligation laid down in *section 135 of the Companies Act, 2013*, but shall not include the following, namely:

1. Activities undertaken in pursuance of the normal course of business of the company;
2. Any activity undertaken by the company outside India except for training of Indian sports personnel representing any State or Union territory at the national level or India at the international level;
3. Contribution of any amount directly or indirectly to any political party;
4. Activities benefitting employees of the company;

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<sup>3</sup> (upscale legal, Oct 26, 2023) <<https://upscalelegal.medium.com/corporate-social-responsibility-exploring-the-legal-aspects-of-csr-sustainable-practices-and-d89da53d2892>> accessed 29 February 2024

5. Activities supported by the companies on a sponsorship basis for deriving marketing benefits for its products or services;

6. Activities carried out for the fulfillment of any other statutory obligations under any law in force in India.<sup>4</sup>

### **APPLICABILITY OF THE CSR PROVISIONS**

Every Company has-

- Net worth of ₹500 crore or more, or –
- Turnover of ₹1000 crore or more, or –
- Net profit of ₹5 crore or more

During the immediately preceding financial year, shall constitute the CSR Committee of the Board and undertake CSR activities. However, if the amount required to be spent as CSR is 50 Lacs or less, the requirement to constitute a CSR committee shall not be applicable and its functions shall be discharged by the Board of Directors. Further, the CSR provisions would also apply to section 8 companies registered under the Act, and foreign companies registered in India. However, it is to be ensured that the company spends in every financial year, at least 2% of the average net profits made during the 3 immediately preceding financial years or where the company has not completed 3 financial years since its incorporation, profit made during such immediately preceding financial years.<sup>5</sup>

### **SIGNIFICANCE OF CSR IN CONTEMPORARY BUSINESS**

In the rapidly evolving landscape of contemporary business, Corporate Social Responsibility (CSR) has emerged as a pivotal and transformative force, transcending traditional profit-centric models to incorporate a broader spectrum of responsibilities. The significance of CSR lies in its ability to integrate social, environmental, and ethical considerations into the core fabric of business operations. Beyond being a philanthropic gesture, CSR is now recognized as a strategic imperative that not only aligns businesses with societal values but also enhances their

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<sup>4</sup> (Tax Guru) <<https://taxguru.in/company-law/corporate-social-responsibility-csr-related-provisions.html>> accessed 29 February 2024

<sup>5</sup> (Tax Guru) <<https://taxguru.in/company-law/corporate-social-responsibility-csr-related-provisions.html>> accessed 29 February 2024

overall sustainability and resilience in an ever-changing global marketplace. The following is the significance of CSR:

- Enhanced Reputation and Brand Image: Businesses that actively engage in CSR initiatives cultivate a positive reputation, fostering trust and goodwill among consumers and stakeholders. Therefore, a strong CSR program contributes to a positive brand image, creating a competitive advantage and attracting socially conscious consumers.
- Stakeholder Engagement and Relationships: CSR initiatives demonstrate a commitment to stakeholders beyond shareholders, including employees, customers, suppliers, and local communities. However, engaging with stakeholders through CSR fosters stronger relationships, loyalty, and a sense of shared responsibility.
- Risk Mitigation: Integrating CSR practices helps businesses identify and mitigate potential risks, including legal, environmental, and social risks. However, proactive engagement in responsible business practices minimizes the likelihood of reputational damage and legal challenges.
- Employee Morale and Productivity: CSR initiatives contribute to a positive workplace culture, boosting employee morale and job satisfaction. Moreover, employees often feel a sense of pride and purpose when working for a socially responsible organization, leading to increased productivity and retention.
- Access to Capital and Investors: Investors increasingly consider CSR performance when making investment decisions, recognizing its correlation with long-term financial sustainability. Moreover, companies with strong CSR practices may find it easier to attract investment and secure favorable terms.

### KEY COMPONENTS OF CSR

- Environmental Sustainability: Businesses are increasingly expected to minimize their environmental footprint by adopting sustainable practices, reducing emissions, and conserving resources. Therefore, implementing eco-friendly initiatives, such as recycling programs and energy-efficient practices, aligns with the global imperative for environmental conservation.
- Social Welfare: CSR involves a commitment to social welfare through initiatives that address societal challenges, including poverty alleviation, education, healthcare, and community development. Moreover, supporting local communities and social causes demonstrates a company's commitment to being a responsible corporate citizen.

- Ethical Practices: Ethical considerations are integral to CSR, encompassing fair business practices, transparency, and integrity. Likewise, businesses are expected to adhere to ethical standards in their dealings with customers, suppliers, employees, and the broader community.

Therefore, CSR's significance in contemporary business goes beyond compliance; it embodies a commitment to holistic sustainability, ethical conduct, and societal well-being. By embracing CSR, businesses not only contribute to a positive global impact but also fortify their resilience and longevity in an increasingly socially conscious and interconnected world.

### **LEGAL FRAMEWORKS GOVERNING CSR**

The legal landscape governing Corporate Social Responsibility (CSR) spans both national and international levels, with various laws and regulations shaping the expectations and obligations of businesses. At the national level, countries have implemented a diverse array of legal frameworks to encourage or mandate CSR activities. For instance, in the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act requires certain companies to disclose information about their use of conflict minerals, promoting transparency and ethical sourcing. In India, the Companies Act of 2013 mandates that qualifying companies allocate a portion of their profits towards corporate social responsibility initiatives. These legal requirements aim to align business activities with societal and environmental goals. At the international level, organizations such as the United Nations Global Compact (UNGC) have established principles encouraging businesses to adopt sustainable and socially responsible practices. The UNGC promotes voluntary commitments from companies worldwide to uphold human rights, labor, environment, and anti-corruption standards. Furthermore, the Organization for Economic Co-operation and Development (OECD) provides guidelines for multinational enterprises, including recommendations on responsible business conduct. These international instruments create a framework for CSR that transcends national boundaries, emphasizing the importance of global cooperation in fostering ethical and sustainable business practices. Together, these national and international legal frameworks contribute to shaping the CSR landscape by both mandating and incentivizing responsible corporate behavior.

Furthermore, the legal framework governing Corporate Social Responsibility (CSR) in India as governed by the Companies Act, of 2013, mandates certain companies to allocate at least 2% of their average net profits from the preceding three financial years towards CSR activities.



These activities must be undertaken in areas such as promoting education, eradicating hunger, and poverty, protecting the environment, and other areas specified in Schedule VII of the Act. The CSR activities must be undertaken by a CSR committee, which is responsible for preparing an annual report on the company's CSR activities, including specifics of the initiatives, the money allocated to each initiative, and the impact of the activities on society. The report must be included in the board's report to shareholders. The Companies Act also mandates that companies listed on the stock exchange must provide a CSR policy, and the CSR activities must be undertaken in a transparent and accountable manner. The Ministry of Corporate Affairs has introduced new regulations and guidelines to promote CSR, including the amendment rules of 2022, which introduced a new format for the annual report on CSR efforts. The annual report must include information such as the CSR policy, CSR committee members' details, and an executive summary and impact assessments of CSR projects. Additionally, companies must declare the amount allocated to active and additional projects, surplus amounts for set-off, and unspent CSR amounts for the previous three financial years. The annual report should also include information about capital assets generated or bought via CSR spending and an impact assessment of these assets.

Furthermore, recent developments in CSR in India have focused on sustainable development, social entrepreneurship, impact assessment, and COVID-19 relief measures. The Ministry of Corporate Affairs has introduced new regulations and guidelines to promote CSR, emphasizing transparency and accountability in reporting. Companies are expected to expand their CSR activities to benefit society and enhance their reputation and brand image.

## RECENT DEVELOPMENTS AND AMENDMENTS OF CSR

Recent amendments to the Corporate Social Responsibility (CSR) framework in India have introduced significant changes aimed at enhancing transparency, accountability, and impact assessment of CSR activities. Here are some key highlights from the amendments:

- Constitution of CSR Committee: The 2022 amendment mandates companies with any amount in their 'Unspent Corporate Social Responsibility Account' to constitute a CSR committee, irrespective of the spending amount mandated for the company. This ensures ongoing monitoring and utilization of CSR funds for ongoing projects.<sup>6</sup>

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<sup>6</sup> (Pacta) <<https://www.pacta.in/blog/Companies-Corporate-Social-Responsibility-Policy-Amendment-Rules-2022.htm>> accessed 29 February 2024

- Widening the Category of Implementing Agencies: The amendment broadens the category of entities that can act as implementing agencies for CSR projects. Companies under Section 8, registered public trusts, or registered societies with an established track record are now eligible to serve as implementing agencies, expanding the scope of CSR recipients.<sup>7</sup>
- Expenditure on Impact Assessment: The new rules limit the expenditure on impact assessment reports to 2% of total CSR expenditure or Rs. 50 lakhs, whichever is higher. This change aims to ensure appropriate spending on impact assessment while enhancing the evaluation of CSR projects.<sup>8</sup>
- Annual Reporting and Disclosure: Companies are now required to provide detailed information in the annual report, including an executive summary and weblinks for impact assessments of CSR projects. The report must disclose information on ongoing projects, unspent CSR amounts, and reasons for not meeting the 2% spending requirement in the preceding financial years. These amendments reflect a commitment to strengthening the CSR regime in India by promoting effective utilization of CSR funds, improving governance around CSR implementation, and enhancing reporting standards for greater transparency and accountability in corporate social responsibility initiatives.<sup>9</sup>

## CHALLENGES ENCOUNTERED IN THE CASE OF CSR

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The challenges and criticisms surrounding Corporate Social Responsibility (CSR) reveal a nuanced perspective on the motivations and implications of corporate engagement in social and environmental initiatives. One prominent concern is the perception that CSR might be utilized merely as a public relations tool, strategically employed to enhance a company's image without necessarily addressing deeper ethical or legal issues. This critique, articulated by scholars like Vogel (2005), suggests that some businesses may engage in CSR activities primarily for positive publicity, rather than genuine commitment to social and environmental responsibility. This raises questions about the authenticity and long-term impact of such initiatives, as they may not result in meaningful change or rectification of underlying legal problems.

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<sup>7</sup> (mmjc) <<https://www.mmjc.in/changes-introduced-by-the-csr-amendment-rules-2022/>> accessed 29 February 2024

<sup>8</sup> (Khaitanco) <<https://www.khaitanco.com/thought-leaderships/Towards-a-stronger-Indian-CSR-regime:-Key-changes-effected-by-the-CSR-Amendment-Rules-2022>> accessed 29 February 2024

<sup>9</sup> (mondaq) <<https://www.mondaq.com/india/coronavirus-covid-19/1234956/csr-amendment-rules-2022>> accessed 29 February 2024



Moreover, another criticism centers on the appropriateness of corporations assuming responsibilities traditionally assigned to governments and legal systems. The argument here is that encouraging or requiring businesses to address social and environmental issues, might inadvertently shift the burden away from governmental bodies responsible for regulation and enforcement. Critics argue that while CSR initiatives can bring about positive change, they should not replace or overshadow the role of governments and legal frameworks in addressing systemic issues. This perspective questions the extent to which corporations should be involved in social governance and whether such involvement may create a power imbalance or detract from the accountability of public institutions.

In essence, these challenges and criticisms underscore the need for a careful examination of the motivations and impacts of CSR. Striking a balance between corporate responsibility and the role of legal and governmental systems is crucial for ensuring that CSR efforts genuinely contribute to societal well-being and do not inadvertently detract from or substitute essential legal and regulatory functions.

#### CASE LAWS

- Union Carbide Bhopal Disaster (1984):

While not directly related to CSR, the Bhopal disaster raised questions about corporate responsibility for environmental and social impacts. The case involved a gas leak at a Union Carbide plant in India, causing significant harm to the local community. The legal aftermath dealt with issues of corporate negligence, liability, and accountability, highlighting the broader implications of corporate behavior.

- Kiobel v. Royal Dutch Petroleum Co. (2013):

While not explicitly a CSR case, the U.S. Supreme Court case of Kiobel dealt with allegations of human rights abuses committed abroad by a multinational corporation. The case raised questions about the extent of corporate liability for human rights violations, touching upon issues relevant to CSR and ethical business practices.

- Nestlé & Cargill v. Doe (2020):

This case involved allegations of child slavery on cocoa farms in West Africa, with Nestlé and Cargill as defendants. The U.S. Supreme Court ruled that the Alien Tort Statute (ATS) did not

allow foreign victims to sue U.S. corporations for human rights violations committed abroad. While not explicitly a CSR case, it underscores the legal complexities surrounding corporate responsibility for human rights issues in global supply chains.

It's essential to note that CSR is often guided by voluntary principles, industry standards, and self-regulation. However, legal cases involving corporate behavior, environmental impact, and human rights may indirectly intersect with CSR principles. For the latest and most relevant cases, it's recommended to consult legal databases, court records, and news sources specific to the jurisdiction of interest.

## CONCLUSION

In conclusion, the influence of Corporate Social Responsibility (CSR) within legal frameworks is a complex interplay between ethical business practices and the regulatory landscape. This literature review has explored the multifaceted impact of CSR on legal settings, emphasizing its role in shaping compliance, liability, reputation, and regulatory evolution. The legal frameworks, both at national and international levels, create a context where companies are increasingly encouraged or mandated to integrate social and environmental considerations into their operations. However, challenges and criticisms, such as the potential misuse of CSR for public relations purposes and concerns about the appropriation of governmental responsibilities by corporations, underscore the need for a nuanced and thoughtful approach. As businesses continue to navigate the legal dimensions of CSR, it is imperative for stakeholders, policymakers, and corporations to collaboratively address these challenges to ensure that CSR initiatives contribute meaningfully to societal well-being while complementing, rather than substituting for, the essential roles of legal systems and regulatory bodies. The ongoing evolution of legal frameworks and the incorporation of CSR principles will likely shape the future landscape of responsible corporate conduct and its integration with legal systems.