LEGAL LOCK JOURNAL

2583-0384

VOLUME 2 || ISSUE 4

2023

CORPORATE SOCIAL RESPONSIBILITY: ANALYSIS BEFORE & AFTER THE MANDATE

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Abstract:

Corporate Social Responsibility is a business initiative that makes sure the targeted organisation achieves particular objectives regarding morality, environmental sustainability, and social effect. This research paper aims to elucidate on the importance of Corporate Social Responsibility (CSR) among businesses in today's context. CSR has occupied a significant position among companies worldwide. CSR has been quite the topic of discussion among economists and businesses especially in India after the statutory compliance required to be followed by all the companies in India as per the Companies Act 2013. According to the Act, businesses must form a CSR committee that will advise the board of directors on a corporate social responsibility policy and periodically review it. This paper provides an overview of Corporate Social Responsibility (CSR), it's implications on renowned Indian companies and how has it been received by people mainly in India. A parallel has also been drawn between the times when CSR was a voluntary decision by Indian businesses and the time when CSR has been made essential to be followed by businesses legally. Herein we have also discussed about the varied reactions of business stakeholders on the CSR mandate. The positive and negative impacts of CSR have also been discussed in detail to analyse its relevance in today's day and age.

Keywords: statutory compliance, Indian Companies, Companies Act 2013, voluntary, mandate.

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Introduction:

The notion of give and take drives the concept of corporate social responsibility (CSR). Because organizations today use important resources from society in the form of raw materials, human resources, and other resources for their operations, they should function as trustees of the society and must provide something to the society's well-being. In general, "Corporate Social Responsibility" can be described as a corporate initiative to analyse and accept responsibility for the company's environmental and social welfare impacts. CSR has always been viewed as a humanitarian activity in India. With the addition of Section 135[3] to the Companies Act of 2013, India became the first country to make CSR mandatory for specified corporations. The enactment of new regulations in 2013 marked a watershed moment in India's corporate social responsibility (CSR) efforts. Companies of a specific size are required to spend 2% of their profits on CSR efforts under this rule. India is the first government in the world to establish a framework for identifying viable CSR initiatives as well as a mandate for CSR spending, to the forefront and through its disclose-or-explain directive, which is promoting greater disclosure and transparency.

CSR in today's context:

CSR has occupied a significant position among companies worldwide. There have been rising concerns about the environmental, social and ethical impacts that companies have due to their strategies and everyday operations. CSR is regarded as a responsibility that enterprises have for their impact on the society. With growing phenomenon like global warming, carbon emissions etc., companies across different countries are building strong CSR policies and ethics. The United Nations Industrial Development Corporation (UNIDO)[4] works closely with companies in order to ensure that they are adhering to the CSR norms. The concept of CSR has gained priority all across the world but different nations have different ways of its application and implementation. Most of the developing countries have witnessed growth in CSR activities by various multinational companies.

In India, CSR was seen as a voluntary step by the businesses rather than as a statutory compliance. But today India is the first country in the world to have a statutory compliance requirement on CSR spending. CSR activities have been greatly emphasized in section 35 of

[3] The Companies Act, 2013, § 135, No. 18, Acts of Parliament, 2013 (India).
[4] United Nations Industrial Developmental Organization 1966.

the Companies Act 2013.[5] Enterprises that fail to conform to the CSR norms in India, have to pay a penalty. As per this provision, the companies that meet certain criteria have to spend at least 2% of their average profits for CSR activities[6].

CSR under Indian Companies Act, 2013:

The Companies Act of 2013 has altered the regulations governing corporate governance, operations, and social responsibility in India. While the act contains a number of challenging problems, the required CSR expenditure clause has been the most disputed. CSR regulations would be applied to private limited and public limited firms, as well as their holding and subsidiary companies, and international corporations with headquarters in India that meet any of the following conditions, according to Section 135, Companies Act, 2013.[7] i.e., the company must have a net worth of at least INR 500 crore in any financial year, or an annual revenue of at least INR 1,000 crores in any financial year, or a net profit of at least INR 5 crore in any financial year (any of the three previous financial years). Companies that meet any of the aforementioned requirements are required to spend at least 2% of their average net income over the previous three financial years on CSR operations.[8] Companies are required to publish their CSR reports on their official websites at least once a year.[9] The Company's Board of Directors must prepare an annual report on the company's CSR operations in a separate format prescribed in the CSR guidelines.

India makes a significant contribution to CSR initiatives in the areas of education, gender equality, and poverty alleviation, among other things. Many firms contribute significantly to CSR, such as the Tata Group, which spent INR 1,095 crore on CSR in FY19 and positively touched 11.7 million people.[10] 'Nanhi-Kali' is a Mahindra & Mahindra special programme that provides educational help to impoverished schoolgirls. In 2018-19, the company spent INR 93.50 crores. Other companies that participate in CSR efforts include Infosys, ITC Group, Reliance Industries, ONGC, Vedanta Group, and others.

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[5] Companies Act, 2013, section 35(1)(iii), Act of Parliament 2013.
[6] Paridhi Dave, Corporate Social Responsibility: Boon or Bane, blog.ipleaders.in (February 2, 2022, 4:07 PM),https://blog.ipleaders.in/corporate-social-responsibility-boon-or-bane/.
[7] The Companies Act, 2013, § 135, No. 18, Acts of Parliament, 2013 (India).
[8] Anubhav Pandey, *Corporate Social Responsibility in India*, BLOG IPLEADERS, (Jan 29, 2022, 4:34 P.M.), https://blog.ipleaders.in/corporate-social-responsibility-india/#_ftn8.
[9] Companies (Corporate Social Responsibility Policy) Rules, 2014, § Rule 8 and 9.
[10] CSR-TATA Sustainability Group, https://www.tatasustainability.com/SocialAndHumanCapital/CSR#:~:text=In%20FY19%2C%20the%20group%20has,sanitation%2C%20healthcare%20and%20strengthening%20services (last visited January 29, 2022).

Impact of CSR on Indian Companies:

CSR has its share of positive and negative impacts on Indian companies. Let's have a look at the advantages of CSR on Indian Companies followed by some disadvantages respectively:

- CSR helps companies in boosting up their image in the public eye. When companies engage in CSR activities and demonstrate them, they are recognized and appreciated for their efforts which leads to more publicity and acknowledgement.
- CSR helps companies in delivering utmost satisfaction to the clients and employees alike. When the clients know that they are engaging with a company that has a moral license, they are attracted towards collaborating with it again. This leads to increased profits which provides satisfaction to the employees as well as the companies.
- A company which is involved in CSR activities gets a lot of support and collaboration from a plethora of investors and agencies because of the wide traction it gets. This helps in more influx of capital for the company[11]. It also helps the companies to diversify and expand their business prospects as the target audience increases because of more recognition. Consistent efforts in ascertaining proper CSR activities also leads to better client relations.

Some negative impacts of CSR on Indian Companies are as follows:

- Many a times the cost of practicing CSR leads to a disruption in the cost of production. The companies might have to change certain pre-decided distribution pricing which has an effect on the stakeholders of the company. If the company decides to increase the price of its end product because of the increased cost then it might also lead to less than expected profits.
- CSR activities also lead to a clash between the main objective of business i.e., making profits and public morality.[12] The companies have to spare a chunk of their profits for CSR activities which basically means that the net profit is reduced.

But we can clearly say that there are more positive impacts of CSR on companies than the negative impacts. Hence, CSR activities must be followed by Indian companies as they are really crucial.

[11] Pushpa Sundar, Five Years After CSR Became Mandatory, what has it really achieved, The Wire (February 3, 2022, 6: 20 PM),https://thewire.in/business/five-years-after-csr-became-mandatory-what-has-it-really-achieved.

[12] Chandrasmita Priyadarshini, An analysis of new CSR Regime, blog.ipleaders.in (February 3, 2022, 7:35 PM) https://blog.ipleaders.in/analysis-new-csr-regime/.

Critical Analysis:

It is important to mention that CSR has had a massive impact on companies worldwide and it provides accountability for the actions that businesses take and the toll that such actions take on the environment. Before the CSR mandate, CSR activities by the businesses were purely voluntary but after the CSR mandate a statutory compliance is necessary by all companies in India. While this move was appreciated worldwide and many economists expressed their acceptance and approval of the same still, there were companies that feel that the earlier voluntary CSR regime was effective as businesses had the free option to engage in CSR activities as per their will and sometimes even go beyond to offer more to the society[13]. Some believed that the voluntary CSR strategy was better and more effective as it did not bind businesses to engage in CSR activities. On the other hand, voluntary CSR regime also had its pros and cons, while it left businesses free to engage in CSR activities it also led to an imbalance because other businesses did not engage in CSR activities at all. They did not give back to the society at all and kept using the environmental resources for their business activities which had harmful impacts on the environment. We are well aware of the health hazards that people face especially in the metropolitan areas where business activities are at its maximum leading to impure air, water etc. Hence, it becomes necessary to enforce some legal obligations on businesses to see that they comply with CSR norms. So, legal compliance of CSR norms is a great initiative and must be followed by businesses.

Conclusion:

Corporate social responsibility refers to how businesses manage their operations in order to have a beneficial impact on society while also increasing profits. The positive and negative effects of CSR are addressed in the paper. There is no simple formula for determining if CSR is a benefit or a problem. CSR initiatives were either a voluntary or regulatory requirement in the majority of countries. India is the first country in the world to make corporate social responsibility (CSR) spending a legal requirement.

From the preceding analysis, it is undeniable that CSR is a laudable undertaking in which business organisations that profit from society's resources contribute to bridge the socio-economic divide in the country and address societal concerns. However, there are certain gaps,

[13] Time govt scrapped mandatory CSR, economictimes.indiatimes.com (February 4, 2022, 12: 35 PM), https://economictimes.indiatimes.com/opinion/et-editorial/time-govt-scrapped-mandatory-csr/articleshow/85634317.cms.

such as a lack of tax clarity on CSR spending, ambiguity in the computation of foreign company financial statements, and a lack of clarification on CSR regulations in relation to overseas contributions. To overcome these roadblocks and loopholes, the government and corporate entities must collaborate to ensure that the CSR rules are implemented effectively.