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CORPORATE SOCIAL RESPONSIBILITY AND LEGAL MANDATES IN BUSINESS STRATEGY

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ABSTRACT

This article explores the intersection of Corporate Social Responsibility (CSR) and legal mandates within business strategy, with a focus on CSR theories and the application of CSR in the Indian context. It delves into prominent CSR theories such as Carroll's Pyramid, Triple-Bottom-Line theory and Stakeholder theory, highlighting the comprehensive responsibilities businesses have towards economic, legal, ethical and philanthropic dimensions. The discussion extends to legislative framework in India, particularly the Companies Act, 2013, which mandates CSR expenditure for certain companies, illustrating a shift from voluntary to compulsory CSR activities. The analysis reveals how these legal mandates not only ensure compliance but also encourage companies to integrate CSR into their strategic planning. The article posits that as regulatory pressures and stakeholder expectations grow, CSR will become an integral part of corporate strategy, driving transparent, accountable, and sustainable business practices that create long-term value for both companies and society.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

As can be derived by the name itself, Corporate Social Responsibility (CSR) means “the responsibility of the corporate towards the society”. It is based on the underlying ethical principle that since the corporate obtains all the needed resources such as labour, raw material, finance etc. from the society, then it must have some responsibility towards the society as well. Previously, it

was a voluntary practice, which has now evolved into legal mandated obligation. Over the time, various definitions of CSR have emerged, some of which are the following:

“CSR is the responsibility of enterprises for their impact on society.”¹ –*European Commission*

“CSR is a management concept, whereby companies integrate social and environmental concerns in their business operations and their interactions with their stakeholders.”² –*United Nations Industrial Development Organization (UNIDO)*

CSR refers to the idea that the company is obligated to invest in socially and environmentally relevant causes in order to interact and operate with concerned parties having stake in its operations. CSR initiatives evidently affect the corporate’s brand value and reputation. Associating with various stakeholders like employees, NGOs, governments and communities, these effective initiatives strengthen the relationships with such stakeholders, encouraging collaborations and finances for company’s aspirations and schemes.

CSR-oriented companies encompass strategic welfare of two “P” words and abide by it—“People”, being company’s employees or the population at large, and “Planet”.³ Hence, they are committed to incorporating environmental, social, and governance (ESG) factors to their operations.⁴ For instance, Tom’s of Maine, a century-old toothpaste corporation, set an example for others to follow and incorporated CSR in their objectives by inventing the first recyclable toothpaste tube, partnering with a recycling company TerraCycle, while also exhibiting transparency by equipping consumers with detailed particulars of ingredients of the product made available to them for use by the company. Similarly, a shoe company called All birds has gone carbon-neutral, aiming to have zero emissions by 2030 in lieu of its CSR initiatives. The brand desires to achieve such result through several tactics such as regenerative agriculture and using renewable materials. Moreover, the brand also encompasses ethical work practices, having a strict

¹ European Commission, A Renewed EU Strategy 2011-14 f, and governance (ESG) or Corporate Social Responsibility, at 6, COM (2011) 681 final (Oct. 25, 2011).

² Corporate Social Responsibility, U.N. Indus. Dev. Org., <https://www.unido.org/our-focus/advancing-economic-competitiveness/competitive-trade-capacities-and-corporate-responsibility/corporate-social-responsibility-market-integration/corporate-social-responsibility> (last visited June 4, 2024).

³ Luke Strauss, 10 Examples of Corporate Social Responsibility Done Right, Zapier, <https://zapier.com/blog/corporate-social-responsibility-examples/> (last visited June 7, 2024).

⁴ Id.

code of conduct for such purpose and frequently visiting and auditing its factories to ensure the well-being of its workers and fulfilment of its CSR criteria.

EVOLUTION OF CSR AND ITS THEORIES

As stated previously, CSR used to be practiced voluntarily throughout the 19th century, which involved the corporations participating in charity measures such as financing the schools and hospitals, donating for the community welfare, visiting orphanages etc. However, these initiatives were not integrated into the company's core operations, and hence were often erratic. The rapid increase in industrialization during the early twentieth century, however, gave rise to various labour movements and social activism demanding to enrich the laborers with the legal rights such as ethical work environment with equitable salary and considerate safety to the workers. Subsequently, around the mid-twentieth century, a more panoramic viewpoint of CSR came into trend, leading to the emergence of various theories and perspectives corroborating the development of CSR. Some of them are:

A. CAROLL'S CSR PYRAMID THEORY

Carroll talks about the pyramid comprising of four obligations of businesses towards the society in this theory:

- a. Economic Responsibility— As per Carroll, the society has permitted the business to be created and sustain. Hence, the society expects the corporate to have an economic responsibility towards it as well. It is the duty of the corporate to produce the goods and services as per the society's desires and to continue to grow and make profit for not only its own benefit, but for the benefit of its stakeholders. Failing to do so, the corporate is destined to perish.
- b. Legal Responsibilities— It is the duty of the company to follow fair business practices and abide by the rules and regulations set by the society and the lawmakers, not only because of the fear of punishment but as a choice made in order to scrupulously obey the restrictions imposed by the society. In order to keep the functioning within the corporation in check, Compliance officers are appointed by it, who have to ensure the legal functioning of the company and related persons such as their employees or directors.

- c. Ethical Responsibilities— Laws are vital but sometimes they are not enough. However, even where the law remains silent, it is the responsibility of the corporate to not deviate from the right path and do what is ethical. The society expects the business to follow the norms, standards and practices which need not be codified in law, but are considered significant for the stakeholders' welfare. The moral principles like justice, good conscience and utilitarianism, which are universally acknowledged must be abided by and essentially incorporated in a company's activities.
- d. Philanthropic Responsibilities— Rather than being a responsibility, it is more like an expectation from the business that it will repay the society for what the society has provided it. It is a voluntary act of the corporate, which is neither mandated by law nor directed by ethics, however, intention to elevate the brand value and enhance the company's reputation and respect among the public may serve as a driving force behind such philanthropic actions.

Taking in order from top to bottom, these four obligations are decreasingly pressing within the theory of CSR.⁵

B. TRIPLE-BOTTOM-LINE THEORY

Coined by John Elkington for the first time, “triple-bottom-line” refers to three P's namely, People, Planet and Profit. The theory asserts three dimensions in which the traditional accounting framework has been expanded— *Economic sustainability*, making corporations responsible to operate in order to get stable and prolonged profit rather than focusing on making huge short-term profits; *Social sustainability*, encouraging the corporations to initiate activities which feed the varying needs of the society in which they operate; and *Environmental sustainability*, prioritizing the conservation of the environment by protecting natural resources or reducing the ecological footprints harming the environment. Hence, this theory imposes the responsibility on the corporate to safeguard the interests of the people and planet, while it strives to attain profit.

C. STAKEHOLDER THEORY

⁵ https://saylordotorg.github.io/text_the-business-ethics-workshop/s17-02-three-theories-of-corporate-so.html , otorg.github.io (last visited June 7, 2024).

Propounded by Dr. F. Edward Freeman, this theory states that a company has various stakeholders, the shareholders just being one of them. Such stakeholders include employees, consumers, government, local communities and political and environmental groups. It is the company's responsibility to look after the rights and fulfil the desires of these stakeholders. By ignoring its obligations towards such stakeholders, even though the corporation sustains momentarily, it is bound to perish in the long run.

In this way, in the past few decades, CSR has shifted from a voluntary compliance to a strategic legal obligation, driven by multiple factors like consumer expectations, investor priorities, globalization and technological advances.

INTEGRATING CSR THROUGH BUSINESS STRATEGY AND LEGAL MANDATES

Over the past half century, the business has been judged not just by its economic and moral performance, but also by its social contributions.⁶ Henry Ford II identified this when he spoke at the Harvard Business School back in 1969: "The terms of the contract between the industry and society are changing... Now we are asked to serve a wider range of human values and to accept an obligation to members of the public with whom we have no commercial transactions".⁷

The modern public demands the businesses to incorporate values and use their voices by making social issues a part of their strategies and operations. An evident example would be the recent boycotting of several companies like Nestle, Coca-Cola, McDonald's, Unilever and Ikea during the Russia-Ukraine war, due to the perception that the continuous operation of such companies in Russia is indirectly supporting its economy, which was tantamount to supporting the war. Such boycotts happened as a form of solidarity with Ukraine, intending to support the Ukrainians by isolating Russia economically. Similarly, during the intense Israel-Palestine conflict, companies like Starbucks, HP and Airbnb, along with Coca-Cola and McDonald's, were also boycotted by the people for indirectly supporting Israel during the war period, in an attempt to address the complex issues in the conflict by exerting socio-economic pressure on the influential groups. Opposite to this, the corporations like Microsoft and Ben & Jerry's, which supported and

⁶ Geoffrey P. Lantos, *The Boundaries of Strategic Corporate Social Responsibility* (2001).

⁷ Chewning et. al, p. 207 (1990).

facilitated the intended parties in the above conflict, i.e., Ukraine and Palestine, received immense appreciation and enormous support from the public, boosting their reputation as a socially responsible companies, and substantially aiding their customer loyalty and brand strength, while consequently raising their sales.

For CSR to be effective, it must be integrated into the core business strategy, rather than treated as an autonomous manoeuvre. CSR measures should be aligned with the corporate's strategic goals and must include the stakeholders' stance in order to be effective. In order to mandate the CSR activities, the governments worldwide have introduced certain legal frameworks which increasingly shape the way in which the companies approach CSR, underscoring the intersection of ethical responsibility and regulatory compliance.

The United Nations Guiding Principles on Business and Human Rights lay down the global anatomy emphasizing CSR in order to adhere to human rights principles. The European Union Non-Financial Reporting Directive aims to enhance transparency and facilitate substantial business operations by mandating prodigious public-interest entities to disclose information on their social and environmental impacts, anti-corruption policies and human right practices. The Chinese government encourages CSR through guidelines and initiatives such as the Green Credit policy which impels the banking institutions to facilitate the environmentally responsible projects and companies financially through easy loans.

Such strategic integration of CSR and legal mandates offer various benefits like enhancing the corporate's reputation, constructing strong brand image, attract talented employees, subsequently mitigate risk and gain long-term sustainability in their business goals.

CSR IN INDIAN SCENARIO

“A company should have in its DNA, a sense to work for the welfare of the community. CSR is an extension of individual sense of social responsibility. Active participation in CSR projects is important for a company.” – *Ratan Tata*.⁸

⁸ Dr. Uttam Kumar Purbey, Corporate Social Responsibility in India: An Overview, IJAAS 494-498, 494 (2020).

Principles pertaining to ethics, transparency and accountability, care for all stakeholders, adherence with the workers' rights and welfare, respect for environment, and social and economic development frame the foundation for CSR in India.

The concept of CSR was introduced in India by the Companies Act, 2013, and is engraved in Section 135 of the Act. According to the provisions of this Section, the companies having net worth of Rs. 500 crores or more, or turnover of Rs. 100 crores or more, or net profit of Rs. 5 crores or more, shall constitute a CSR Committee consisting of three or more directors, one of them being an "independent director". Every such company falling in the above criteria, has to spend at least 2% of its average net profit made during the three immediately preceding financial years for the CSR initiatives. Failing to spend such amount, and after specifying the reasons for not spending the required amount, the unspent amount is either to be transferred to a certain Fund specified in Schedule 7 of the Act within six months, or to be transferred to a special account called "Unspent CSR Account", the money in which is to be used by the company within next three financial years and if still unspent, such amount would finally be transferred to the specified Fund.

Further, Schedule 7 lists down numerous areas where the companies are required to spend the prescribed CSR amount such as for eradicating hunger, poverty, malnutrition, promoting healthcare and sanitation; for promoting education; for promoting gender equality, empowering women, set-up old age home and day-care Centres; for training to promote rural, national and Paralympic sports; for the protection of natural heritage, art and culture, including the protection of the River Ganga; for contribution to PM Fund, including PM Care Fund and contribution to public funded universities; for rural and slum area development projects; and for disaster management, including relief rehabilitation and reconstruction etc.⁹ The CSR Committee will be responsible to decide the areas in which the CSR amount is to be spent by the company among these areas prescribed in Schedule 7 of the Act, and how such amount is to be spent.¹⁰ If such amount is not spent by the company for CSR initiatives, then a penalty of twice the amount required, or one crore rupees, whichever is less, is to be imposed on the company; and a penalty

⁹ The Companies Act, 2013 (18 of 2013), Schedule VII, Acts of Parliament, 2013 (India).

¹⁰ Id, Section 135(3).

of one-tenth of the amount required, or two lakh rupees, whichever is less, will be imposed on the relevant members of the company.¹¹

Pertaining to this legal mandate targeting issues such as poverty, education, healthcare, and environmental sustainability, numerous CSR initiatives have been taken by the corporations in India. *For instance*, the Tata group runs and facilitates numerous programs in healthcare, education and sustainable livelihood, recently launching the “Thousand Schools Project” intended to improve the education quality in rural areas and “Club energi” initiative focused on promoting energy conservation among school children. Infosys has built several schools, hospitals and libraries across India over the years. Reliance Foundation has also launched “Project Drishti” providing free eye care and surgeries to the underprivileged, and has launched operations for education, arts, culture and heritage, rural transformation, health, and urban renewal. Amul Dairy, in partnership with District Rural Development Agency (DRDA), has launched the scheme of “Rural Sanitation Campaign” for total rural sanitation, providing interest-free loans to its milk producers in the district of Anand and Kheda to set-up ‘pucca’ toilet blocks, working as a double-edged sword aiding rural hygiene and helping women milk producers to avoid embarrassment at the same time.

CONCLUSION

The integration of CSR into business strategy has evolved from a voluntary practice to a legal mandate in numerous regions, including India. Theories of CSR, such as Carroll’s Pyramid and Stakeholder Theory, underscores the multifaceted responsibilities businesses have towards their economic, legal, ethical and philanthropic obligations. In the Indian context, CSR has been significantly shaped by legislative frameworks, such as the Companies Act, 2013, mandating the companies to contribute a portion of their earnings towards socially or environmentally relevant causes. This legal requirement not only ensures a minimum standard of CSR activities but also encourages businesses to go beyond compliance and integrate social and environmental considerations into their business operations and core strategies.

Looking ahead, the future of CSR appears to be significantly aligned with the sustainable development goals (SDG) and global environmental, social and governance (ESG) standards.

¹¹ Id, Section 135(7).

Corporates can be anticipated to adopt more transparent and accountable practices, driven by both regulatory pressure and growing demand from consumers and investors for ethical and sustainable business conduct. The advancement of social media platforms and digital communication has also played a significant role in enhancing the knowledge of the public and has provided an opportunity for everyone to have and voice out their opinions, as well as amplified the scrutiny of business practices. Continuing advancements in technology like refined supply chain transparency, innovation in sustainable products and services, and renewable energy adoption are highly expected to escalate CSR initiatives. As CSR continues to mature, it is likely to become a central component of corporate strategy, influencing decision-making processes and fostering long-term value creation for both businesses and society at large.