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## IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON SOCIETY

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### ABSTRACT

CSR has progressed from being a moral corporate voluntarism to a legal norm under the Indian 'Companies Act, 2013', especially 'Section 135' which provides that eligible companies have to spend at least 2% of their profits on social and environmental welfare. This paper aims to analyze CSR regarding the effects on society, covering the economic, social, and environmental areas, and the difficulties in practice, which are: greenwashing, unequal standards, and the objectives of social and economic return. While the study focuses on effective CSR approaches with positive social sustainability outcomes, such as those by Tata Group encompassing community welfare, it also examines cases with low outcomes, including Vedanta in the Niyamgiri Hills, which exposes problems with stakeholder engagement and ethical considerations. Various judgments passed in India have framed the CSR provisions and have enforced various social and environmental justice. Thus, it is recommended that legislatures provide more stringent rules and methods for CSR implementation, managers should expand CSR into a company's strategic management, businesspeople should engage different stakeholders effectively, and corporate reports should contain better and more comprehensive standards for CSR. These measures are designed to encourage real participation in the actualization of sustainable development by meeting social, economic, and ecological needs in India.

**Keywords:** Corporate Social Responsibility, Companies Act 2013, Section 135, sustainable development, greenwashing, India, environmental sustainability.

### INTRODUCTION

The concept of corporate social responsibility, or CSR, has gained much importance in the sphere of business and management and refers to the corporate practices that are legal and ethical and involve the extra-business responsibilities that corporate bodies have toward society. The global concept of CSR has gradually started being recognized and realized in India due to incorporation into laws and, more importantly, because responsibility has become the corporate conscience. This evolution of CSR gives credit to the paradigm shift from perceiving business enterprises mainly as profit-seeking organizations to appreciating them as visionary stakeholders for

development. Legal formalization of CSR, especially after the introduction of the Companies Act 2013 in India, has given a new dimension to corporate governance, and this article strongly urges that companies cannot remain passive spectators in the advancement of society. India has enacted very stringent legislation and accepted corporate social responsibility across the economic sectors by following "Section 135" of the "Companies Act, 2013," and the policy has made provisions that some enterprises should spend a certain percentage of their net profit towards CSR activities.

CSR has emerged as a critical phenomenon in the current society because of its role in

enhancing a mutually beneficial relationship between business and society. This association is particularly pertinent to India, where SECC, environmental issues, and developmental requirements are high. CSR is a link that brings together corporate goals with societal needs and challenges that relate to the poverty fight, environmental conservation, and the provision of education. In addition, CSR initiatives enable organizations to build up a favourable image for the company, which increases the customers' brand identification and purchase intent.

This paper seeks to look at the effects of CSR with special emphasis on how legal requirements and specific corporate policies affect the upper tiers as well as the lower populace, the government, other businesses, and the general populace. To this end, the research will assess the impact of CSR activities, review the legal frameworks relating to CSR in India, and examine whether mandatory CSR legislation has produced the envisaged social outcomes. Furthermore, the paper will evaluate the impact of judicial approaches to analysing obligations under CSR and analyze cases of best and worst practices of companies fulfilling CSR responsibilities.<sup>544</sup>

This paper has been written to give a detailed analysis, including an understanding of CSR and its applicability in the current business world. The discussion will then make a detailed account of both legal provisions and case laws about CSR's social organization impact in different parts of the globe. After this, the overall contribution of CSR towards the social and economic development of a society will be critically analysed. Recommendations for improving the existing CSR frameworks will form the final sections of this work and demonstrate the main directions for further development of corporate governance and social responsibility in India.

CSR may be described as the efforts that a firm

makes to conform to the needed ethical responsibilities of society besides the creation of wealth. and covers a wide spectrum of undertakings related to such causes as charities, environmentalism, workers' rights, and social welfare. The development of CSR can be discussed starting with the early twentieth century, when the idea of corporate responsibility to society started being voiced and companies started admitting to their social responsibilities in the light of sustainable management practices. This shift from viewing CSR as an add-on or extra alongside the primary business activities as opposed to being a component of the fundamental business approach is a different kind of change in corporate culture.

In the circumstances of Indian legislation, the Companies Act, 2013 forms the foundation of CSR and establishes clear contours and non-negotiables about CSR that are required to be met by some companies. According to 'Section 135' of the Act, any company that has a net worth of INR 500 crore or more, a turnover of INR 1000 crore or more, or a net profit of INR 5 crore or more has to spend a minimum of 2% of their average net profits for CSR. The provision in the law that is targeted at the fact that enterprises should make reasonable contributions to the welfare of society is deemed to be quite a positive effort to start institutionalizing CSR in India. The Companies (Scientific and Industrial Research) Act contains Schedule VII, which defines the CSR initiative spending such as combating hunger, promoting education for children, enhancing cleanliness, protecting the environment, and covering other relevant social welfare causes.<sup>545</sup>

The analysis of the notion of CSR established that CSR is no longer a mere activity but rather a strategic step in business. The change is primarily dictated by the desire of the stakeholders to do business with organizations that exercise high levels of integrity and act

<sup>544</sup> Kamal Garg, *Corporate Social Responsibility* (EBC Webstore, New Delhi, 2<sup>nd</sup> edn., 2023).

<sup>545</sup> Ankur Srivastava Shruti, *Law & Practice Relating to Corporate Social Responsibility* (EBC Webstore, New Delhi, 2<sup>nd</sup> edn., 2023).

sustainably. In today's complex world, organizations are not only being evaluated with great consideration of their performance but companies are also being judged based on their corporate social responsibility and sustainability. CSR forces companies to assume responsibility and give reports of their actions, which obliges them to think of how their actions may affect the community. This approach to managing business activities has increasingly gained support internationally, with businesses incorporating sustainable development goals, or SDGs, into their CSR strategies and goals.

CSR presents several advantages to Indian companies, among which may be the strengthening of the company's image, the raising of the customer's trust, and the increase of employee satisfaction. Knowledge management indicates that the active participation of business organizations in CSR programs helps create goodwill in society, thus enhancing the brand image and the strength of the consumer's brand association. Furthermore, CSR plays a central role in reducing various risks known to be associated with environmental and social crises and promoting sound corporate and ethical governance. This comes in light of the legal provisions like Section 135 of the Companies Act, 2013, whereby CSR is not just an ethical responsibility but stems as a legal requirement for various companies.

The main research question of this study is to assess the effects of CSR on society in general and with special reference to the Indian setting. The area of focus includes research on specific legal requirements regarding compliance with CSR practices as well as the contribution that has been made by companies to create successful CSR strategies and the contribution of CSR to social advancement. This paper aims to achieve its objective by evaluating the case laws and statutory laws to analyze how legal requirements and organizational policies influence CSR activities. Hence, the purpose of this research study is to discuss the prospects and issues related to CSR implementation in the

Indian corporate environment.<sup>546</sup>

Besides, the paper will examine the judicial analysis of CSR requirements in India, discussing how the courts have dealt with CSR matters within that country. For example, judgments such as *Tech Mahindra Ltd. v. Commissioner of Income Tax, Pune*<sup>547</sup> have been useful in understanding the taxation aspect of CSR spending, whereas some of the cases shed light on the aspects of corporate governance about the implementation of CSR mandates. About the next research question, the analysis will also determine whether legalization of CSR has indeed enhanced or eroded the public interest, or whether it has just encouraged corporate organizations to provide tokenistic responses to meet legal prescription.

The organization of this paper is intended in such a way that there is a transition from a broad view of CSR to the demonstration of the implications it has on society. The subsequent parts will discuss the historical development and the evolution of CSR, the legal changes of CSR in India, and CSR's impact and effectiveness in social and economic development. These facts will be followed by an analysis of case laws concerning CSR practice in India and examples of compliance as well as noncompliance with the acts. It is in its final parts that recommendations on enhancing the CSR framework and ensuring greater efficiency of its actions to tackle societal concerns will be provided.

Consequently, this paper will seek to provide a critical account of CSR in the current business context, especially within the context of the Indian legal and regulatory frameworks. It will discuss the possibility of CSR as a vehicle for change as well as possible drawbacks or hindrances of CSR and real-life issues surrounding the implementation of CSR practices. In this regard, the present paper will draw the readers into understanding the

<sup>546</sup> S. C. Tripathi, *New Company Law* 65 (Central Law Publication, Allahabad, 2nd edn., 2023).

<sup>547</sup> [2018] SCC Online ITAT 1763.

changing dynamics of business and society to grasp a wider view of the impact and relevance of CSR in the process of sustainable development.

### CONCEPTUAL FRAMEWORK OF CORPORATE SOCIAL RESPONSIBILITY

CSR, as a concept, has changed its meaning greatly over the last few decades, moving from being an extension of charitable work done by companies to being an inherent part of companies' governance systems. It covers a firm's responsibility to ensure it is ethical and social responsibility, pushing past the conventional business organizational mantra of the requirements of profits. There has been a significant push for this in the last few decades, especially as it followed social pressures towards companies to respond proactively to society's needs. However, this change in India from voluntary initiatives to nonprofit corporate philanthropy to required spending in the form of CSR under the "Companies Act, 2013" has in essence placed CSR on legal grounds to alter the responsibilities of corporations towards society. To identify the current transformative potential of CSR, its evolution should be described, its constituent factors should be defined, the international as well as the Indian legal regulation of CSR should be outlined, and CSR should be delineated from corporate charity.<sup>548</sup>

#### Evolution of CSR: Historical Perspectives

The CSR development process shows that over time, society has shifted its expectations towards business organizations. First, during the first part of the twentieth century, CSR was viewed as a self-regulating activity in which organizations were donating to various causes. This type of philanthropy was mostly conducted from the donor's virtuous perspective rather than that of a corporate culture. After the Second World War, and more so in the seventies, CSR went beyond only charity, with

people getting to know that they could hold the companies responsible for their behavior. In the early 1970s and 1980s, analysis of CSR had moved to responsibility and reporting; companies were called to be ethical in their actions due to increased awareness of corporate malfeasance and environmental decay.

In India, CSR was recognized during the later part of the twentieth century, although some of the industrialist-initiated social welfare activities have been reported from the early part of the twentieth century. However, all these corporate activities were until then carried out on a more voluntary basis in the form of the 'Companies Act 2013' legislative mandate. The passing of what is known as 'section 135' of the act that introduces the provision that mandates any eligible company to spend not less than 2% of their average net profit towards CSR activities is a relatively new concept of CSR. This shift has turned CSR from a voluntary activity that companies engage in into a legal requirement wherein corporate resources are directed toward improving welfare. Measures of this sort illustrate the cooperation of legislation with the seen possibilities for CSR to resolve necessary social and environmental problems, underscoring the shift of CSR from being a philanthropic model into a strategically, legally, governed activity.<sup>549</sup>

#### Defining CSR: Key Elements and Principles

Some aspects and principles describe CSR based on its scope and objectives, which are its components. In its essence, CSR is the responsibility of a firm to run its business legally, sustainably, and ethically. Here one finds such aspects as fair labour relations, low-impact operations, environment, and community contribution. The major facets of CSR can be explained using the 'S' 'E' and the 'P' model, often referred to as "Triple Bottom Line". This framework challenges organizations to think of social equity or the environment not as

<sup>548</sup> Kshama V. Kaushik, *CSR in India: Steering Business toward Social Change* (Lexis Nexis, New Delhi, 1<sup>st</sup> edn., 2023).

<sup>549</sup> Nawneet Vibhaw, *CSR, ESG & Charitable Institutions* (Lexis Nexis, New Delhi, 1<sup>st</sup> edn., 2023).

obstacles to profitability but as potential components of a new successful business model.

The principles of CSR are based on ethical behavior, non-vocalism, and communication with stakeholders. Ethical behavior means that firms ought to uphold a high standard of ethicality and legal compliance and ought to be operationally harmless to society. Communication enables stakeholders to evaluate a business organization's CSR activities and their consequences, which defines transparency. Stakeholder interactions with an organization provoke corporate CSR to fulfil the demands of provisos since stakeholders belong to the interaction of a provision's requirements, and the organization is a tool of provisos. The implementation of CSR is only possible when these factors are incorporated into organizational frameworks and not seen as stand-alone CSR. In India, compliance with these principles is augmented by prescriptive legal demands, for example, the obligation by companies to form CSR committees that will coordinate and report CSR thereabout in conformity to Section 135 Companies Act, 2013.<sup>550</sup>

### Legal Framework Governing CSR in Different Jurisdictions

CSR legal regulation is highly differentiated across jurisdictions, and some of them use only voluntary recommendations, while others provide mandatory prescriptions. It is therefore important to comprehend the laws of CSR while assessing how states encourage or compel companies to undertake CSR.

### International Standards and Guidelines

Internationally, CSR is guided by several standards and guidelines that provide a framework for responsible business conduct. The "United Nations Global Compact," launched in 2000, is one of the most prominent voluntary

initiatives, encouraging businesses worldwide to align their strategies with ten principles covering human rights, labour standards, environmental protection, and anti-corruption. Similarly, the "Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises" provides recommendations for responsible business practices across a range of issues, including supply chain management and environmental sustainability. The "ISO 26000" standard on social responsibility offers guidance on integrating social responsibility into business strategies, emphasizing the importance of ethical behavior and stakeholder engagement.

While these international standards are not legally binding, they play a crucial role in shaping corporate behavior by setting benchmarks for responsible conduct. Companies adopting these guidelines often do so to gain a competitive edge, enhance reputation, or fulfil the expectations of global stakeholders. However, the absence of binding legal obligations means that the level of compliance with these standards can vary significantly.

### CSR Regulations in India

The regulation of CSR is unique in India since CSR expenditure is obligatory as per the section of the "Companies Act, 2013." According to "Section 135" of the Act, all companies holding a minimum average net profit as prescribed by rules framed by the central government shall undertake CSR and spend at least two percent of their average net profit towards the same, activities to be focused on items such as poverty, illiteracy, health and sanitation measures, and environment protection. It also requires the formation of the CSR committee, comprised of members responsible for the formulation, implementation, and monitoring of CSR policies and the structure of corporate contributions. Uniquely, this statutory IO is an Indian innovation that sets India apart from other comparable jurisdictions in which CSR is still mostly not mandated—a perspective that

<sup>550</sup> Top CSR Projects, available at: <https://thejournal.in/top-csr-projects-himachal-pradesh-corporate-social-responsibility/> (last visited on November 21, 2023).

places India ahead of the curve as a trailblazer in the legal regulation of CSR.

The guidelines also include reporting provisions; for instance, companies must state their CSR policies, the members of their CSR committees, and the sums they devote to CSR in their annual accounts. Noncompliance with these conditions leads to penalties; therefore, CSR becomes a mandatory legal provision. The judiciary has a role in defining CSR obligations, as can be seen in *"Tech Mahindra Ltd. v. Commissioner of Income Tax, Pune"*<sup>551</sup>, where the key legal question that arose was regarding tax deductions on CSR expenditure, which brings out many issues relating to the implementation of the CSR mandates.<sup>552</sup>

### CSR vs. Corporate Philanthropy: Understanding the Difference

Even though the two terms CSR and corporate philanthropy are used to mean the same thing, there is a clear distinction between the two terms. Corporate charity means a collection of funds or provision of other material support for the public cause by a business enterprise with no obvious self-serving motives. It tends to be a reactive approach to pertinent social issues that are instigated by the personal values of corporate executives or demands from society. Here, the principal difference is that CSR is a much broader and longer-sighted approach whereby any social, environmental, and economic factors are incorporated into the core of the business. CSR has long-term dedication towards relieving their responsibilities towards the public and concern for the earth while making decisions.

From the legal perspective, India's Companies Act enacted in 2013 has differentiated CSR from mere charity by making provisions for CSR spending towards its structured objectives. Although philanthropy is still a part of CSR as

defined by Schedule VII, the legal mandate makes CSR deliberate, reportable, and programmed to tackle core societal objectives. For example, contributing to a local charity may count as corporate philanthropy, while investing in sustainable development projects under the company's CSR program or investing in education as a strategic way of fulfilling legal requirements are strategic approaches to transforming corporate legal requirements into tools that can be used for the progress of society. This distinction is important in differentiating today's CSR from randomly based philanthropic interventions to portraying a positive image but is today's key tool to encourage sustainable development.<sup>553</sup>

### THEORETICAL UNDERPINNINGS OF CSR

Corporate social responsibility (CSR) relates to socially appropriate corporate behavior, hence an aspect of business organizations that needs theoretical analysis to determine why organizations undertake sustainable practices. Business models put forward by CSR theories allow for a compatibility of self-interest with the responsibility for the overall well-being of society and nature. CSR has evolved over the years, and this has prompted the emergence of various theories: the stakeholder theory, the triple bottom line theory, and the raging shareholder/stewardship theory. All of these theories provide a rationale for why firms embark on CSR initiatives and how these initiatives affect organizational and societal processes. Such theories assist organizations in developing CSR policies to enable the firm to meet the needs of the stakeholders besides making adequate preparations for sustainability.

### Stakeholder Theory: The Role of Stakeholders in CSR

The much-debated stakeholder theory, which

<sup>551</sup> [2018] SCC Online ITAC 1763.

<sup>552</sup> Corporate Social Responsibility Policy, available at: <https://hppcl.in/WriteReadData/userfiles/file/R%20and%20R/Corporate%20Social%20Responsibility%20%20Policy%20%20As%20per%20Company%20Act%202013.pdf> (last visited on November 21, 2023).

<sup>553</sup> Mayank Mishra, 'CSR Funding Grows 630% in 5 years, 7 Times Higher than National Average', available at: <https://thecsruniverse.com/articles/csr-funding-to-himachal-pradesh-grows-630-in-5-years-7-times-higher-than-national-average> (last visited on November 21, 2023).



was postulated by R. Edward Freeman in the 1980s, hovers around the idea that the company's responsibility is not only to shareholders but also to anyone or group that has a stake in the business firm. Stakeholders may be employees, customers, suppliers, the local community, and even the environment. The total stakeholder maximization idea is based on the idea that companies should strive for the creation of added value for all interested parties instead of concentrating on increasing shareholder value. About CSR, this theory notes that it is wrong to view a firm's social responsibilities as a mere 'add-on' because society has come to expect a firm to be socially responsible.

This research finds that stakeholder theory resonates with the Indian legal requirements concerning corporate social responsibility under Section 135 of the Companies Act, 2013. The provision that makes it mandatory for companies to spend not less than 2% of their average net profit on CSR activities takes into consideration the reality of the fact that business organizations have economic goals and objectives that are supposed to be complemented by social responsibilities.

#### **Triple Bottom Line Theory: People, Planet, Profit**

The idea of considering organizational performance in terms of the Triple Bottom Line (TBL) was introduced by John Elkington in the early 1990s and introduced the use of social and, in particular, environmental performance measures beyond the traditional financial ones. The TBL framework posits that companies should measure their performance in terms of three interconnected aspects: "people, planet, and profit." This approach makes organizations shift their focus to working towards economic development alongside social responsibility and the preservation of the environment, hence a more developed notion of the company. Through the TBL model, firms are in a position to minimize the various negative impacts of their activities on the environment as well as society

and be in a position to support society.<sup>554</sup>

In India, the TBL approach can be observed in the integration into the framework of CSR implemented by the "Companies Act, 2013," which only lists the activities that are eligible for CSR spending according to Schedule VII, among which one may enumerate environmental responsibility, health, and educational initiatives. They indicated that this legislative framework has an element of the TBL Theory that challenges companies to solve social and environmental problems alongside financial ones. For example, socially responsible businesses participating in industries with considerable influences on the environment, mining or manufacturing industries, are expected to admit the corporation's social responsibility corporate exercises associated with environmentalism and community support.

#### **Shareholder vs. Stakeholder Approach in CSR Implementation**

The shareholder vs. stakeholder conflict can be considered to be a key conceptual-strategic dichotomy of CSR management. The shareholder approach, of which Milton Friedman is the most well-known proponent, holds that the company's only task is to enhance shareholders' wealth as long as the law allows it. From this perspective, some potential perceived CSR activities as a form of distraction from the main goal of revenue fulfilment that might have negative effects on the return of investment from shareholders. One of the criticisms made for the shareholder approach is that it motivates short-term orientation and lacks attention to firm externalities.

On the other hand, the stakeholder approach, which is associated with the stakeholder theory, postulates that firms have responsibilities to stakeholders only. There is a closer relationship between this approach and the theory of CSR, as it assumes that the company should solve

<sup>554</sup> Pratibha Chauhan, 'Himachal: In 3 years, 23 BBN industrial units spent Rs 61 cr on CSR activities' *Tribune India*, 26 March 2023.

the social and environmental issues within its operational conditions. India, specifically following the Companies Act of 2013, has managed to transition from the more rigid and self-serving SHAREHOLDER view to now the STAKEHOLDER view, which compels organizations to spend and operate sustainably. Through legislation, it is made sure that companies in the system positively impact social development, and thus the goals of all stakeholders other than mere profits earned are met.

Specifically, the judiciary has also served as an intermediary between these two ideologies. However, the judiciary has not turned a blind eye to the fact that, based on the liberal regime of limited liability companies, they are established mainly to make profits, and so they cannot disregard their social responsibilities completely, as is evident through the Supreme Court of India in *Tata Engineering and Locomotive Co. Ltd. v. State of Bihar*<sup>555</sup>. This perspective supports the claims that implementation of CSR should not only be in a way that offers an optimal return for shareholders but also a combination of the bottom line and the top line that balances the firms' economic and social objectives. CSR has emerged as a statutory duty in India, and its legal system supports the stakeholder approach, which implies favourable corporate behaviours to advance sustainable development.

The principles of CSR from the Stakeholder Theory, TBL Theory, and the Shareholder versus Stakeholder are good theoretical frameworks for understanding CSR and why businesses subscribe to the idea. These theories do not only explain the roles that have been provided by society to the business in terms of ethical and sustainable business practices, but also how legal and corporate frameworks regulating business activities in matters of ethics and sustainability are developed to balance the appetite for profits, the economy, and social

and welfare aspects. These theoretical frameworks have been widely incorporated into the CSR practices within the context of India and have helped to build increased awareness within firms to effectively make social contributions while achieving sustainable and long-term economic profits.

### IMPACT OF CSR ON SOCIETY

Consequently, CSR has wider impacts on society since it relates to several facets, including economic streams and the welfare of society and the environment. The provisions of CSR in India are part of "Section 135 of the Companies Act, 2013," which have substantially influenced the corporate contribution to social uplift by forcing any eligible company to devote a portion of its profits to social, environmental, and other related causes. This legal requirement has not only entrenched CSR but has also provoked realistic undertakings that seek to respond to many of the country's challenges. The presentation of different economic effects along with social effects therefore helps in viewing CSR activities as capable of significantly promoting development in positive directions in a society. These impacts are not just tokenistic with organizations promoting an ethical culture and good corporate governance beyond mere compliance.<sup>556</sup>

### Economic Impacts

Different CSR initiatives support economic development in broader terms; particularly, they lead the generation of employment, the generation of skills, and the building of sustainable business models. CSR goes hand in hand with an understanding that when organizations practice CSR, they help improve the conditions of communities fortunate enough to be associated with the relevant businesses while at the same time fostering an environment that is suitable for sustained economic development.

<sup>555</sup> [2000] 5 SCC 346.

<sup>556</sup> Comptroller and Auditor General of India, Report *Chapter -V Corporate Social Responsibility* (2021)

### **Employment Generation and Skill Development**

Another clear economic advantage assignable to CSR is the creation of employment vacancies, predominantly in the districts that can be characterized as underdeveloped. Investing in community development, such as the construction of schools, hospitals, or infrastructure, results in employment opportunities that, other than addressing the unemployment issue, improve the standard of living. Further, the CSR programs that involve vocational knowledge and skill imparting enable the person to become employable and warrant better income. This fight is supported by the legal system for corporate entities in India for undertaking skill development activities as per provisions of Schedule VII of the 'Companies Act, 2013' under CSR compliance. For example, the anti-superstition campaign that seeks to empower the youth through vocational education has received lots of support from companies like Tata Steel, which has initiated many skill development centres across the countryside. The given approach to employment helps in eradicating unemployment as well as improving the conditions of minorities or the deprived class.

### **Promoting Sustainable Business Practices**

Sustainable business practices are one of the most important components of CSR that have important economic features. Thus, sustainability helps minimize business risks and vulnerabilities related to environmental deterioration and depletion of resources that accompany the dynamic market environment and changing regulations. Measures like using energy-efficient equipment or reducing waste can result in an organization adopting responsible measures apart from increasing profitability. Sustainable business practices also give an advantage in terms of business-responsible consumption and production; they also make companies more attractive to socially attractive investors and consumers. Legal awareness about sustainability is

apparent from key decisions such as *"Vellore Citizens' Welfare Forum v. Township Development & Others v. Union of India"*<sup>557</sup>, the Supreme Court held the industries to take measures to control pollution and pass the directions signalling the fact that sustained operation would be economically prosperous.

### **Social Impacts**

A reflection of CSR shows that it goes ant to ant for society because it enhances the standard of living and tackles and solves social issues to boost and enhance the standard of living and enhance growth. All these impacts are important, particularly in a country like India, which is multicultural and has a large population, undergoing socio-economic transformation, and therefore any impacts have to be felt by all the members of the society.<sup>558</sup>

### **Improvement in Quality of Life**

A common positive outcome arising from CSR interventions is a marked enhancement of the standards of living of people in the host communities where such organizations' activities take place, hence issues to do with healthcare and education besides clean and safe water. Those organizations that fund community health programs or build schools directly serve the interests of society and human persons. For example, Reliance Industries, which oversees many industries in India, has pioneered a health care program called Reliance Foundation Drishti, which is aimed at providing eye care services to the needy. The above initiatives are within the expectations of legal requirements under Schedule VII, the 'Companies Act, 2013' which requires companies to spend on health and education in their CSR budgets. Regarding these core wants; CSR assists in increasing living standards and a healthier and better-educated populace.

<sup>557</sup> [1996] 5 SCC 647.

<sup>558</sup> *Supra* note 13.

### **Addressing Social Issues (e.g., Poverty, Health, Education)**

This is because CSR has emerged as a major tool for tackling all the important societal questions, including poverty, health, and education. Corporate actions can partly fill civic voids where the state has failed, especially where people are far removed from the major urban centres. For instance, the Infosys Foundation's CSR initiatives mainly involve donating and distributing educational materials and healthcare products to the rural disadvantaged communities, as these areas are usually deprived of these products. Regarding this, the law on "Section 135" of the "Companies Act, 2013" makes sure that these organizations support and help the government in dealing with social issues.

### **Promotion of Inclusive Growth and Equity**

Another important goal of CSR is to increase the multiplier impact of developmental benefits on those who are deprived of accessing them, such as women, SCs, STs, and the poor. That is why the CSR initiatives can be regarded as decreasing socio-economic inequalities when they include, for example, providing scholarships for SC/ST category students, supporting women entrepreneurs, and the like. Such endeavours are supported by the contemporary Indian legal system that permits organizations to undertake, as part of CSR, undertakings to empower women and the marginalized, as spelled out in Schedule VII of the "Companies Act, 2013." In *Air India v. Nargesh Meerza*<sup>559</sup>, which established the facet of gender equity or employment, makes for a compelling argument that the cause of inclusive growth requires further boost through corporate social programs.

### **Environmental Impacts**

Climate change, depletion of resources, and pollution form the core of the environmental dimension of CSR and need proper attention

and handling. CSR helps companies integrate ecological concerns into their business and thus helps the firm embrace ecological management and support conservation by endorsing environmentally-social programs.<sup>560</sup>

### **Reduction in Carbon Footprint**

Efforts to decrease a corporation's carbon footprint have become a contentious issue due to concerns about climate change that organizations are experiencing pressure to address. The report presented shows that steps like the usage of renewable energy sources, increased energy efficiency, and realization of carbon offset measures substantially decrease greenhouse gas emissions. In India, legal mechanisms like Schedule VII, which places importance on environmental sustainability, prompt firms to undertake activities that help reduce their pollutive levels. The judiciary has also come out as an agent of demanding environmental conservation, as evident in the case of the *Indian Council for Enviro-Legal Action v. Union of India*<sup>561</sup>, the Supreme Court of India held industries that pollute the environment to environmental degradation; therefore, it is relevant to establish practices that compete to minimize carbon footprint.

### **Preservation of Natural Resources and Biodiversity**

Through light, it's gotten a hold of that CSR programs that tackle the management of natural resources and biodiversity are sustainable. Afforestation exercise, water conservation, and wildlife protection are some of the acts that companies undertake as their corporate social responsibilities. They are environmental activities that also conserve the resources for use in the future by other generations, as seen in the picture below. In India, CSR legal requirements evoke mandatory influence on organizations regarding environmental protection that aligns with the

<sup>559</sup> [1981] 4 SCC 335.

<sup>560</sup> Corporate Social Responsibility and Its Impact on Society, available at: <https://blog.ipleaders.in/corporate-social-responsibility-impact-society/> (last visited on October 15, 2024).

<sup>561</sup> [1996] 3 SCC 212.

Sustainable Development Goals (SDGs) of the United Nations.

### **Encouraging Green Innovations**

Green innovations are important to CSR as they involve creating new technologies and businesses that create little harm to the environment. Through product innovation and research, those with capital put their money into investing in companies dealing with green products, renewable energy systems, and production with reduced impacts on the environment. The “Companies Act, of 2013” allows companies to spend their resources in a manner that fosters the prosperity of activities that promote green innovations, which will help move to a low-carbon economy. Case laws like “*M.C. Mehta v. Union of India*”<sup>562</sup>, cleaning up vehicular pollution, has stressed the legal aid and the social need for sustainable innovations.

CSR has social, economic, and environmental effects on society since it also embraces sustainable development goals. There are conditions under which businesses profit from CSR by making the world a better place in terms of economic growth, social improvement, and a sustainable environment. The generic notion of CSR in operation in the Indian context through legal requirements has also found precedence and support from Indian judiciary and legislation to institutionalize the system, making it more cumulative to urge the organizations to institutionalize the practicalities of socially responsible corporate governance systems as an organization standard practice across the organizations. In this manner, corporate goals and objectives support specific sustainable development goals and show that the financial welfare of a company is interdependent with the welfare of other stakeholders and the environment.

### **CHALLENGES AND CRITICISMS OF CSR**

CSR, though viewed as an important component of a company in its contemporary

business environment, has its problems and controversies. However, CSR programs as stipulated by law, such as “Section 135” of the “Companies Act, 2013” for India or as demanded by people’s rising consciousness that corporate organizations should be a catalyst to the enhancement of the quality of life in society, present endless challenges that check the success of the programs. Examples of such challenges include greenwashing, a lack of harmonized standards of regulation across different regions, the difficulty firms encounter in trying to balance between the bottom line and corporate social responsibilities, and finally the fact that CSR measures have little positive effect on ingrained social problems. Knowledge of these criticisms is critical in identifying the construction of stronger CSR frameworks that can meet the needs of society as opposed to the current mode of serving the legal and image needs of organizations.<sup>563</sup>

### **Greenwashing and Misleading CSR Initiatives**

The criticism levelled against CSR is most disturbing, whereby firms contradict themselves and provide misleading information to the public to portray themselves as socially responsible. Greenwashing refers to making some business practices or certain products seem environmentally or socially useful when, in fact, they can hardly contribute to sustainability management. This deprives the authenticity of CSR initiatives and misleads innocent consumers who want to give back to responsible businesses. For example, organizations can participate in annalistic gestures like planting trees or contributing a few dollars to conservation organizations while maintaining their pollution-causing activities. Legal consequences arising from instances of greenwashing are quite strict, with different legal jurisdictions providing legal sanctions to firms that make those unproved statements. In India, the ASCI has tried to act as an effective

<sup>562</sup> [2002] 4 SCC 356.

<sup>563</sup> CSR Challenges and Resolutions, available at: <https://www.cyberswift.com/blog/csr-challenges-and-resolutions/> (last visited on October 15, 2024).

self-regulatory body for protecting consumers from being misled through ads claiming environmental benefits, but there is a lot still left to be desired whenever it comes to regulating the claim. Judicial perception of misleading CSR practices can be ascertained from cases such as *Mahindra & Mahindra Ltd. v. UOI*<sup>564</sup>, where corporate practices have been analysed to see whether they are legal and ethical and whether they mislead society by CSR-related claims and are not a marketing ploy for business.

### **Inconsistent Regulatory Frameworks Across Countries**

CSR regulation is a complex factor that differs substantially across nations, a factor that poses a major challenge to international business organizations. However, there is a relatively stronger trend where countries like India have legally imposed specific legal obligations on organizations of a stipulated size to undertake CSR, while there are other countries that only provide guidelines and recommendations rather than legal prescriptions for CSR. These differences in regulatory requirements can result in uncertainty over the CSR policies and physical results that businesses should be providing and the type and extent of CSR information they must disclose. For example, while India's Companies Act, 2013 has Section 135 that requires eligible companies to spend a minimum level of money on CSR, other countries may just issue recommendations for CSR implementation without legally binding rules. This breed of evolution introduces a paradoxical situation in organizations that seek to have a standardized CSR strategy for their global operations, knowing fully well that this may lead to uneven commitment levels and the danger of regulatory arbitrage whereby companies shift to the less stringent requirements in the other regions. This is possible, especially when different countries have different CSR policies.

### **Balancing profitability and social responsibilities**

The other issue that makes CSR unsustainable is the conflict that exists between profit-making by organizations and meeting social needs. Schein reflected that the buying, selling, and profit-making goals are the basic ones of any business for a long time, with a notion of shareholder value maximization; by contrast, CSR activities are expected to support and align with this goal through improving such attributes as brand image and the company's viability while still showing potential for conflicts between business rationality and real social responsibility. In this sense, for firms in constrained circumstances with limited funds or in industries where competition is high, the consideration of engaging in social responsibility upliftment projects might be viewed as a distraction from business essential activities. This tension is most likely to occur where the margins between costs and revenues are low, meaning that CSR costs can easily be viewed as eye-wateringly expensive. In India, the amount spent on CSR expenditure is mandatory by "Section 135" of the "Companies Act, 2013," which has a heated debate on the fact that it is a legal requirement to spend money on social causes that burden the company, majorly or minorly, or put an extra load on small businesses to handle a huge amount for CSR spending. The technicalities of law, including the judicial precedents, will be provided by judging and analysing the legal position of CSR expenditure as case law. "*Tech Mahindra Ltd. v. Commissioner of Income Tax, Pune*<sup>565</sup>" explicates the amount of consideration that a company has to undertake about their financial responsibilities as well as their statutory social responsibilities.

### **Limited Impact on Core Social Problems**

CSR is criticized for the fact that, according to a large number of resources invested in various programs and activities, the contribution to the

<sup>564</sup> [2020] SCC Online SC 951.

<sup>565</sup> [2018] SCC Online ITAT 1763.

solution of fundamental social issues is weak. Though organizations embark on activities that enhance education provision, health, and environmental conservation, such activities are not a solution to issues like poverty and inequality, among others. For example, CSR work may entail giving out money or working on simple one-off projects that may not do much to create sustainable development for the people. The law in India, as a result of the Company Act 2013 with Schedule VII, indicates the areas where the funds should be spent and has formulated guidance regarding target sectors; nevertheless, it has not brought much difference in focusing on core social issues. In addition, CSR activities are also not often supported by adequate operational controls and assessments, so there are doubts about whether such programs work in generating change. Cases like *'Unni Krishnan, J.P. v. State of Andhra Pradesh'*<sup>566</sup>, which on the principles of law focusing on basic structures and rights, including education, imply that the objectives of the corporate entities need to be fully in tandem with societal objectives as well as policies set down by the government.

Hence, although CSR has benefits to society, we learn from the above challenges and criticisms that the area of CSR has prospects for development or refinement in both conceptual modelling and practice. The actions that companies embark on must go further than vanity pursuits and focus on creating value for what needs to be measured. They are perhaps major obstacles that must be addressed to realize the CSR vision of creating a sustainable world: Increase in regulatory standards, actualization of reporting, and the zeal in endeavouring to determine the cause of social and ecological challenges as against the symptoms.

## CASE STUDIES: ANALYSING THE REAL-WORLD IMPACT OF CSR INITIATIVES

To enter into further length of the argument, the idea will be to concretize corporate social responsibility (CSR) while identifying case studies that show how effectively or ineffectively CSR implementation takes place and meets its goals. The case studies illustrate the difficulties and issues related to CSR implementation and permit an evaluation of the favourable effects and the issues observed. Such analysis is relevant in the context of India, where Section 135 of the Companies Act, 2013 requires eligible organizations to spend on corporate social responsibility. By comparing a successful CSR implementation and another with low effectiveness, this section plans to derive some useful lessons that may be relevant to future CSR strategies.<sup>567</sup>

### Case Study 1: A Successful CSR Initiative

Finally, a clear example of good CSR work done in India is the work of the Tata Group and specifically Tata Steel Rural Development Society. The TSRDS has assisted in a plethora of projects, all of which are oriented towards healthcare, education, skill development, and the creation of livelihoods for the needy population of the states of Jharkhand and Odisha. For instance, TSRDS, in partnership with the American India Foundation, implements the "MANSI" (Maternal and Newborn Survival Initiative) project, which aims at reducing maternal and neonatal mortality in rural districts through training of health care workers and service delivery. It has worked so well that it has even acted as a deterrent to infant mortality and helped improve maternal health. The MANSI project has effectively addressed all the factors associated with fistula, utilized community health workers, and educated local women to prevent this condition.

The Tata Group's attitude toward CSR is

<sup>566</sup> [1993] 1 SCC 645.

<sup>567</sup> Paola Ellaine D. Luzon, Jennifer Mae I. Milan, Eunice M. Noveno, "Social Work in Suits: A Case Study on the Corporate Social Responsibility (CSR) Initiatives of Widus Foundation, Inc. (WFI)", *10 ASEAN Social Work Journal* 17 (2022).

voluntary and goes beyond the legal and obligatory compliance with contracts and legal requirements to act in a socially responsible manner and the best interest of sustainable development and stakeholders. The responsibilities of CSR can be seen in terms of the Companies Act, 2013 Schedule 7, which permits funding of health and measures against poverty. Moreover, the allocation of resources to social issues by the Tata Group even before the legal provision of CSR policy shows a strong corporate governance ethos of the group. The judiciary has also appreciated Tata; in the case, *Tata Engineering and Locomotive Co. Ltd. v. State of Bihar*<sup>568</sup>, the Supreme Court of India has held that the company has a rich tradition of contributing to society, thus the legal and social relevance of going ahead with pro-active CSR initiatives.

### Case Study 2: A CSR Initiative with Limited Impact

While CSR is on the rise and is increasingly being integrated into firms' strategic management processes, there is much more to CSR, especially when understood as CSR 2.0. Vedanta Resources' CSR practice, especially about the indigenous people of Niyamgiri Hills of Odisha, is a classic example of the limitations of CSR. The expansion plan of Vedanta Resources to mine bauxite from the Niyamgiri Hills met stiff resistance from the indigenous population, who argued the project jeopardized their livelihood and destroyed their culture. Hence, though Vedanta headed several CSR projects in the region, like the construction of schools and hospitals, the initiatives were seen as not sufficient to offset the likely impacts of environmental and social costs of the mining. Local communities further criticized that the CSR programs failed to mitigate the social costs that the values had on their traditional lifestyle and positionality or that they did not guarantee sustainable positive effects. This paper looks at the legal tussle in the case of *Orissa Mining Corporation Ltd. & Anr v. Ministry of Environment*

& Forests<sup>569</sup>. In this that was referred to appeal by the Supreme Court of India, the court ruled in a way that protected the rights of indigenous peoples besides embracing the rights of environmental en246.

The Vedanta case explains why CSR if conducted as an afterthought to a company's main business, is ineffective. However, the failure of the CSR initiatives to be accepted was a result of deficiencies in stakeholder consultation in the community development processes and the insufficiency of compensation measures put in place by the company. This example points out that it is critical to bring CSR in line with the requirements of specific communities and to ensure that such steps are not shallow compliance practices but address real concerns. Moreover, it discusses that the judicial system is also protecting the rights of these individuals and groups willingness of CSR not becoming an excuse for avoiding environmental and social responsibilities.

### CONCLUSION

CSR refers to the study of corporate activities that affect social issues and how these activities affect the many different aspects of society and its relevant problems while considering economic, social, and environmental values. In India, corporate social responsibility is—or better—was made a legal obligation under section 135' of the 'Companies Act, 2013'. This legislation is a major change in the focus of corporate governance supporting businesses for sustainable development. This has led to the emergence of structured activities as a result of CSR being integrated as a mandatory policy to address social problems and promote economic development

And environmental sustainability. Therefore, by having legal requirements for eligible companies, India has become a pioneer of CSR incorporation into the corporation law of other jurisdictions.

<sup>568</sup> [2000] 5 SCC 346.

<sup>569</sup> [2013] 6 SCC 476.



Nonetheless, CSR endeavours are only sustainable where companies have a true and positive attitude towards best ethical practices as well as corporate governance. As exemplified by the MANSI project of Tata Group and many others, CSR is capable of creating long-term positive social change for the native people, but the Vedanta group at Niyamgiri reveals how a counterproductive approach is to consider CSR as a superficial measure that is adjusted only after the industrial operation is set. These case studies stress the need to take systemic strategies that involve genuine stakeholders' participation in CSR and pass critical programs at a relevant community need. Courts dealing with social and environmental justice serve as reinforcement for the importance of CSR by insisting that companies cannot just engage in cost-of-compliance CSR.

However, concerns like greenwashing and lack of stable laws and regulations, as well as the conflict between profit and social responsibility, are problems that do not allow the disclosure of the potential of CSR at the present level. To overcome these challenges, there has to be more rigorous regulation, adequate reporting of these risks, and developing sustainable solutions in contrast with spending and investing in endless workarounds. Managers have to ensure that CSR becomes part of the strategies that form the fabric of a firm for social responsibility to become the culture of the corporation.

In conclusion, CSR remains a success story in the support of societal welfare and development in India, but the extent of accomplishments of the policy largely hinges on the extent of practice and endeavour of organizations to practice more than legal compliance to ethical standards. Learning about the development of CSR in India made the organizations realize the other angle or face of the corporate world, not only the organizational profits but also the impact of the corporate organizations on society and the environment. Thus, CSR can be more than a

marketing or an organizational instrument when it focuses on a rational systemic approach and results in systemic, complex, and concurrent transformations at the societal, organizational, and individual levels.

#### SUGGESTION

In an effort to solve the problems detected with CSR and to increase its positives as much as possible, several actions can be taken. These suggestions aim to enhance the effectiveness of CSR practices, promote meaningful contributions to society, and overcome obstacles such as superficial compliance, greenwashing, and inconsistent regulations.

- To avoid mere tokenism, the regulatory authorities should make some specific recommendations about the standards enforced for registering, monitoring, and reporting on CSR programs. This can, for instance, involve compulsory third-party verification, extensive reporting on the social, environmental, and economic effects, penalties for failure to report, or where such reports contain bare-faced fabricated information regarding CSR specifications. Increased scrutiny will prompt organizations to undertake serious and genuine processes.
- There should be effective consultation with stakeholders to increase the relevance of CSR projects for companies. Listening to the voices of stakeholders means that the CSR activities are relevant to the needs of society and approved by society. It can enhance the now often contested ideas of CSR and sustainability to gain the necessary public support.
- CSR programs must work to provide long-term solutions rather than just short-term solutions to a problem. For example, in place of one-off contributions or fundraising events, organizations can support proposed projects with long-term impact,

including capacity-building initiatives, constructions, or environmental initiatives to be named.

- CSR should not be done as a mere extra activity outside a company but as a part and parcel of the business. When CSR is integrated with organizational strategy, social and environmental issues are integrated with decision-making and operations, resulting in higher authenticity and legitimate outcomes.
- It is finally suggested that due to vulnerability towards fluctuating standards in cases of CSR regulations, efforts should be made to appreciate and implement standardized CSR codes. This can span the development of standard, regional, or global templates for CSR reporting and evaluation so that multinational corporations across the world can apply standard procedures that meet global requirements.
- The regulation should be tighter in terms of the requirements for the public reporting of CSR practices. This means that in addition to the amount spent, it should also present the impact. Independent and transparent CSR reporting enables stakeholders to judge CSR claims as genuine or otherwise and brings companies to order to show the real social and ecological effects of their actions.
- Governments and regulatory authorities present opportunities in the form of tax incentives, funds, or subsidies for organizations that undertake green technology, sustainable business models, and research in the formation of environmental destruction. This leads to improved performance in sustainable development, thus encouraging the businesses to stretch to fulfilling their obligations and challenging themselves to take an active role in contributing to

sustainable development.

- Several organizations, particularly those operating at the SME level, might lack skills in designing and implementing sound CSR initiatives. Such companies must be offered support, tools, and information that can assist them in carrying out genuine initiatives that will help improve the state of societies and the environment in which they exist.
- The involvement of NGOs and community-based organizations can add to the value of CSR implementation. The use of civil society actors enables organizations to improve on their CSR initiatives as they align with the culture and prescribes of the society.
- Courts assist institutions of higher learners in influencing CSR practices by imposing social and environmental factors that are significant for corporate or business decisions. Maintaining focus toward similar goals that involve ensuring the rights of other vulnerable groups and preservation of the environment, focuses the companies in the direction of more ethical as well as lawful activities that relate to CSR.

These suggestions aim to address the current limitations of CSR and encourage businesses to make a deeper commitment to sustainable development and social responsibility. By implementing these measures, companies can enhance the effectiveness of their CSR initiatives and contribute more significantly to the well-being of society and the environment.