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Research Article

Corporate Social Responsibility: A Legal Perspective W.R.T Sec 135

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Abstract: Corporate Social Responsibility (CSR) is moving from a voluntary ethical practice to a legal requirement for businesses in many countries, including India. Section 135 of the Companies Act, 2013, marks a significant milestone in this evolution, mandating certain companies to allocate a portion of their profits towards CSR activities. The paper aims to contribute to the ongoing discourse on the role of law in promoting responsible business practices and societal well-being. Additionally, it delves into the challenges and opportunities faced by corporations in implementing CSR initiatives. The findings of this research underscore the importance of CSR as a tool for sustainable development and corporate accountability, highlighting the need for continuous refinement of the legal provisions to enhance their effectiveness. This paper provides an in-depth analysis of Section 135, examining its legal framework, objectives, and the impact it has had on corporate behaviour and societal welfare since its inception.

Keywords: - Section 135, challenges and opportunities, sustainable development, corporate accountability.

INTRODUCTION

CSR is composed of three words: Corporate, Social and Responsibility. Corporate by definition means that we are talking about profit making organizations, second they exist as part of the society that they function in, they are within a society, there within a social milieu and the third is responsibility which means that they understand that they are part of a social economic, environmental, natural milieu that they are functioning in.

General Philanthropy is the practice of helping people in need. Now applied to the corporate organizations, corporate philanthropy is the desire of profit-making organizations to help people in need or to promote the welfare of people in need. These are the three basic elements of corporate social responsibility. Corporate profit making; social connection with the environment the around with the environment that the organization functions in, and responsibility.

Corporate Social Responsibility (CSR) has emerged as a critical component of contemporary business practices, reflecting the growing recognition that companies bear a responsibility not only to their shareholders but also to the broader society. In the Indian context, CSR has formalized through legislative measures, most notably section 135 of the Companies Act, 2013. The landmark provision made India one of the first countries in the world to mandate CSR contributions, thereby integrating social welfare into the legal obligations of corporate entities.

Sec.135 requires certain companies, based on their new worth, turnover, or profits, to allocate at least 2% of their average net profits towards CSR activities. These activities encompass a wide range of initiatives aimed at addressing social, environmental, and economic issues, including education, healthcare, poverty alleviation, and environmental sustainability.

The introduction of this section has brought about a significant shift in how businesses operate, encouraging them to align their objectives with the broader goals of societal development.

The rationale behind Section 135 extends beyond mere compliance; it is rooted in the belief that businesses, as key drivers of economic growth, have the power and responsibility to contribute to the well-being of the communities in which they operate. This legislation seeks to ensure that corporate actions are not solely profit-driven but also contribute to the public good, fostering a culture of responsible and ethical business conduct.

The study will assess the effectiveness of Section 135 in promoting sustainable development and corporate accountability, while also considering the perspectives of various stakeholders involved in CSR initiatives. Through this analysis, the paper seeks to contribute to the understanding of CSR as a legal mandate and its implications for the future of corporate governance in India.

Objectives of the Study

1. To know the role of law in promoting Corporate responsibility.
2. To understand the importance of CSR as a tool for sustainable development.
3. To learn the challenges and opportunities faced by corporations in implementing CSR initiatives.
4. To study the need for continuous refinement of the legal provisions.

5. To know the impact, it had on corporate behavior and societal welfare.

REVIEW OF LITERATURE

A researcher begins his research by reading and researching the subject at hand, which requires him to be aware of and knowledgeable with both past theories and researches published in previous investigations and studies. So, in order to assure its familiarity, they have to maintain the accumulated and recorded previous information. Conducting a study of related literature is crucial for determining the best research direction. The term literature review combines the words review and literature. Research, review, refers to the synthesis of available knowledge in a given area, whereas literature refers to knowledge and information about the concepts, definitions, and theories utilized in the relevant field of inquiry. The concept of CSR became popular in the 1990s. Howard R. Bowen's book "Social Responsibilities of the Businessman" provided a significant impetus to modern discussions of social responsibility.

He urged that businesses evaluate the societal ramifications of their decisions. Various studies have revealed that consumers are gradually shifting toward purchasing products based on a firm's position in society (Forte and Lamont, 1998). Confederation of Indian Industry (2002) conducted a survey jointly with UNDP, The British Council and PricewaterhouseCoopers (PwC) to ascertain the predominant perceptions on CSR in India and the role that companies define for themselves in the society. The results suggest that the desire to be a decent corporate citizen and better brand image are the key drivers of CSR among businesses (Edenkamp, 2002). In a study conducted by Saunders (2006), it was discovered that 52% of consumers are more willing to recommend a brand that supports a good cause than one that does not. Meanwhile, 55% of buyers feel that during a recession, they will buy from brands that support good causes, even if they are not the most affordable.

Companies that have made CSR a vital part of their companies are reaping the benefits of company sustainability, minimizing liability and insurance costs, and increasing brand image.

(Saunders, 2006). Corporate social responsibility is perhaps the most important factor for any brand marketer. It is important since studies are increasingly indicating that individuals will spend their money on companies that match their values and concerns (Mark Choueke, 2009). Scott Beaudoin (2009) has said, the same impact as commercials, because it shines a good light on a company or product. That is why CSR can be viewed as a form of marketing. Including the firm name in socially responsible marketing raises brand awareness and recognition.

It is obvious that the notions of value and values are fast blending in the minds of customers. People desire to associate with firms that represent their positive brand image, which improves various outcomes such as contentment, service superiority, loyalty, and repurchasing intent.

It is apparent that the notions of value and values are quickly combining in consumers' perceptions. People desire to interact with firms that reflect their positive brand image, which improves various outcomes such as contentment, service superiority, loyalty, and repurchasing intention Dr. Preeti Chhabra 1850 Neito (2009) stated that When combined, CSR and branding tactics can increase a company's worth in the eyes of both customers and employees. Investing in corporate social responsibility can give organizations a competitive advantage and financial benefits (Luo and Bhattacharya, 2006), build brand awareness (Hoeffler and Keller, 2002) and create brand legitimacy (Luo and Bhattacharya, 2006; Uggla, 2006; Vaaland et al., 2008; Werther Jr and Chandler, 2005), this can increase stakeholders' relationships with the corporate brand. For Chaffee (2017), the social component in business behavior can be traced back to ancient Roman laws and can be found in institutions such as asylums, homes for the destitute and elderly, hospitals, and orphanages.

There was an increasing amount of urbanization and industrialization, characterized by large-scale industry. This brought new concerns to the labor market such as: new problems for farmers and small businesses to keep up with the new interconnected economy, the formation of unions of workers aiming for improved working conditions, and a middle class concerned about the erosion of religion and family values in the new industrial society (Heald 1970). As a response to these new challenges, some corporate executives established groups to promote ideals and improve working conditions in order to achieve harmony between the industry and the labor force.

Corporate Social Responsibility (CSR) involves intentional actions beyond legal obligations to promote sustainability and fairness, encompassing ethical choices and transparency.

Role Of Law in Promoting Corporate Responsibility

Corporate social responsibility is a business paradigm in which corporations make a concentrated effort to operate in ways that benefit society and the environment rather than damage them. CSR can help improve society and promote a positive brand image for companies.

The Companies Act, 2013 provides for CSR under section135. Thus, it is mandatory for enterprises covered by section 135 to comply with the CSR provisions in India. Companies are required to spend a minimum of 2% of their net profit over the preceding three years as CSR.

Corporate responsibility (CR) is about the impact an organization has on society, the environment, and the economy. Having an efficient CR program contributes favourably to all stakeholders while also bringing value to the organization itself and ensuring it functions in a sustainable fashion.

In India, the corporations Act of 2013 mandates corporations to comply with CSR rules, such as allocating at least 2% of their net earnings over the previous three years to CSR. The act also requires companies to establish a Corporate Social Responsibility Committee (CSR Committee) on their board and specifies the committee's obligations and the contributions that certain entities must make to the company's CSR policy.

Governments can enact legislation, collaborate with businesses, and promote best practices to ensure that corporations adhere to societal standards and norms. Law can help corporations coordinate with their environment and promote internal reflection processes. Section 166(2) of the Companies Act 2013 obligates a company's directors to act in good faith in order to promote the company's objectives for the benefit of its members as a whole, as well as in the best interests of the company and its employees.

Importance of CSR as a tool for sustainable development

CSR enables firms to implement sustainable practices that have a beneficial environmental impact. It is crucial for addressing global challenges, enhancing brand reputation, attracting talent, and fostering innovation. This involves lowering carbon emissions, promoting energy efficiency, sustainable sourcing, and ethical supply chain management.

- **Sustainability:** CSR enables firms to embrace sustainable practices that benefit the environment. This involves lowering carbon emissions, promoting energy efficiency, sustainable sourcing, and ethical supply chain management.
- **Social Impact:** CSR enables corporations to positively impact society by participating in charitable activities, supporting social causes, and giving back to the community. This includes community outreach programs, employee volunteerism, and charitable donations.
- **Ethical Practices:** CSR encourages ethical conduct in corporate operations. It entails following ethical standards, fair labor practices, responsible marketing, and avoiding unethical actions like bribery and corruption.
- **Stakeholder Engagement:** CSR enables organizations to engage with their stakeholders, such as customers, employees, suppliers, and communities. This fosters a sense of trust and loyalty, which benefits the firm in the long run.
- **Brand Reputation:** CSR helps to improve the business's brand reputation. Businesses that are socially responsible can set themselves apart from their competition and develop a favorable brand image. This can lead to greater client loyalty and better financial performance.

Challenges and opportunities faced by corporations in implementing CSR initiatives

Stakeholder resistance, resource restrictions, and regulatory complexity all contribute to CSR implementation challenges. Solutions include integrated planning, teamwork, clear definitions, consistent reporting, and ethical procedures.

1. **Resistance from Stakeholders: -** Implementing social responsibility encounters pushback, particularly from profit-driven organizations. Some stakeholders value short-term profits over social advantages, making alignment with the greater good difficult.
2. **Cost and Resource Constraints: -** Social responsibility necessitates significant investments of time, money, and resources. Smaller companies and those with limited funds struggle to allocate resources. Initial costs may surpass immediate profits, reducing stakeholder buy-in.
3. **Complex Regulatory Compliance: -** Compliance with rising social responsibility regulations is complex. Firms must traverse complex environmental, labor, and community requirements across areas, which can be time-consuming.
4. **Measuring and Evaluating Impact: -** Quantifying social and environmental impact is critical, but difficult owing to intangible results. It is vital to create trustworthy measurements and reporting frameworks. The lack of established measures hampers benchmarking and peer comparison.
5. **Balancing Short-Term Financial Goals with Long-Term Social Objectives: -** It is difficult to strike a balance between short-term financial aspirations and long-term societal goals. Some efforts take time to produce results, putting pressure on businesses to focus on instant profits. Visionary leadership is required to link financial success with social impact.

Despite these barriers, corporations and individuals who embrace social responsibility are effecting positive change and inspiring others to follow suit. By conquering these challenges, they illustrate the power of combining corporate success with social and environmental responsibility.

Need for continuous refinement of the legal provisions under CSR

Corporate social responsibility is a business strategy in which firms strive to operate in ways that benefit society and the environment rather than damage them. CSR may serve to better society while also promoting a positive company brand image.

Section 135, of the Companies Act of 2013, includes provisions for CSR. As a result, enterprises covered by Section 135 must comply with India's CSR obligations. Companies are obligated to spend at least 2% of their net profit from the previous three years on CSR. Legal framework for CSR in India under Section 135 of this act requires corporations covered by the provisions to spend at least 2% of their average net profit over the previous three financial years on corporate social responsibility. Turnover exceeds ₹1000 crores. Net value exceeds ₹500 crores. The net profit is greater than ₹5 crores.

Legal components of corporate social responsibility include pecuniary duties, which are critical for creating a solid foundation for these other initiatives. Legal responsibilities may be considered the most significant. This included following all applicable laws and regulations to ensure that the business operated honestly. Legal compliance is the basic understanding of the rules and laws that govern corporate activities. While following the law's basic standards is required to avoid legal implications, corporate social responsibility (CSR) goes beyond this obligation by incorporating a proactive commitment to ethical behavior.

IMPACT OF CSR ON CORPORATE BEHAVIOUR AND SOCIETAL WELFARE

CSR can help improve society and promote a positive brand image for companies. CSR includes four categories: environmental impacts, ethical responsibility, philanthropic endeavors, and financial responsibilities. CSR is dependent on financial performance since organizations with more accessible resources can devote those resources to social responsibility activities. At the same time, companies that prioritize CSR have greater financial performance. As a result, CSR is considered as a competitive benefit for businesses.

a. **Impact on Corporate Behaviour:** Improved reputation and brand image. Companies that engage in CSR initiatives tend to have a stronger public image, which increases customer loyalty and trust.
b. **Improved Risk Management:** Companies can use CSR initiatives to identify and reduce potential risks, such as regulatory hazards and environmental and social difficulties.
c. **Employee Engagement and Retention:** CSR contributes to a positive work environment, leading to higher employee satisfaction, engagement, and retention rates.
d. **Innovation and Competitive Advantage:** CSR programs frequently spur innovation, notably in the development of sustainable products and processes, providing organizations with a competitive advantage.
e. **Ethical Governance and Compliance:** Companies that engage in CSR are more likely to follow ethical business practices and comply with legal regulations.
f. Community Development: Many CSR efforts focus on community development, such as education, healthcare, and infrastructure, which improves people's quality of life.
g. **Environmental Sustainability:** Many CSR programs aim to reduce environmental footprints, promote sustainable practices, and battle climate change.
h. **Economic Empowerment:** CSR programs frequently include assisting small businesses, encouraging fair trade, and creating job opportunities, all of which contribute to economic empowerment.
i. **Improved Public Health:** CSR helps to improve public health by tackling health-related issues such promoting wellness programs and supporting healthcare infrastructure.
j. **Social Equity and Inclusion:** CSR initiatives usually target themes of social justice, inclusiveness, and assistance for marginalized communities, thereby promoting a more equitable society.

CSR has evolved from being a voluntary practice to an integral part of corporate strategy, shaping how businesses interact with society and driving positive change in the broader community.

CONCLUSION

Overall, Section 135 has had a tremendous impact on India's CSR sector, encouraging firms to take greater social responsibility. However, the efficiency of these activities varies greatly, with some corporations actually contributing to community welfare while others only nominally following the rules. Future study should focus on establishing more complex criteria for assessing CSR impact, as well as exploring ways to assist smaller businesses in more effectively meeting their CSR duties. Policymakers should also consider revising the criteria to encourage greater commitments beyond simply compliance. Companies that incorporate ethical principles into their operations improve not only their reputation and competitiveness, but also contribute significantly to societal welfare. CSR programs lead to good changes in environmental sustainability, economic empowerment, public health, and social equity, indicating that firms may be effective change agents. Finally, CSR demonstrates a strategic alignment of company objectives with societal requirements, resulting in shared value for both businesses and the communities they serve. To summarize, Corporate Social Responsibility (CSR) has transformed the landscape of modern business, creating a stronger relationship between businesses, communities, and the environment.

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