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**IMPACT OF PRE AND POST CORPORATE SOCIAL RESPONSIBILITY
MANDATE ON INDIAN CORPORATE SECTOR**- Meenakshi Gupta¹**ABSTRACT**

Corporate social responsibility is an emerging idea in which companies are expected to do more than just make money. The phrase "Corporate Social Responsibility (CSR)" refers to a company's effort to evaluate and accept responsibility for its influence on the environment and social welfare. Profit is important, but so are environmental and social concerns. The question of whether corporate social responsibility should be mandatory or voluntary has arisen over time. There are both advantages and disadvantages of corporate social responsibility. Following an amendment to the Companies Act 2013, in April 2014, India became the first country in the world to make corporate social responsibility (CSR) mandatory. Traditionally, profit maximisation has been the primary goal of any firm. Companies gradually realised that, in addition to profit maximisation, they needed to pay attention to fulfilling social duties in order to survive in a changing world. This created the groundwork for the modern concept of social culpability which later came to be known as "corporate social responsibility".

Keywords: CSR, Corporate Sector, Companies Act, Sustainability, Social Welfare

INTRODUCTION

As part of any CSR compliance, business can invest their revenues in sectors such as education, poverty, gender equality and hunger. This research paper focuses on the journey from pre mandate to post mandate corporate social responsibility, impacts of the pre and post mandate corporate social responsibility period on the Indian Corporate sector, how important this is for the economy and society, alike and the pros and cons of mandatory and voluntary CSR initiatives for the inclusive development of the society. An attempt will be made to offer suggestions as to how these inadequacies can be countered effectively so that the law is

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followed in its true letter and spirit. The term "corporate social responsibility" refers to the idea that, in addition to serving the interests of its shareholders, a company should also serve the interests of its other stakeholders. Customers, employees, suppliers, and the local community are all included. The definitions encompass a wide range of societal issues, including business, Stockholder demands, ethics, community development, human rights, environmental issues, sustainability, diversity, labour conditions, and philanthropy governance, ethical sourcing, environmental efficiency, social equality, and human rights others are all topics that need to be addressed.. CSR is often described as a voluntary term in several definitions. But after the legislative amendment, CSR is no longer a voluntary activity but mandatory.

The question of whether corporate social responsibility refers just to voluntary actions or also to legal requirements is crucial to comprehending the complexity of this issue. Corporate social responsibility is divided into two domain. Firstly, preventing or minimizing harm and secondly maximization of the benefits. The 2013 amendment focuses on the former part.

➤ **PERIOD PRIOR TO THE CSR MANDATE AND ITS IMPACTS ON CORPORATE SECTOR**

Evolution of Corporate social responsibility In India can be drawn from the industrialization period when practice of charity was in demand to social empowerment during independence, and later to the economy model bound by legal and regulatory framework of businesses ctivities and the environment.In this period voluntary approach of CSR is used. The voluntary CSR strategy is one in which the corporation has self imposed obligations. Typically, this is due to the company's decision to issue its own set of rules and code of conduct. The voluntary aspect of CSR is frequently taken by businesses to suggest that, because CSR is voluntary activities are not obligatory they are always optional and therefore they can be skipped. In this companies are the sole determinant. By using voluntary codes and other private setting, companies itself decide what they consider to be their responsibilities to the society.

IMPACTS

- **Ethical concept:** The increasing volume of voluntary CSR reporting reflects the demand for firms to be held accountable for their action. To summarise, the voluntary CSR approach argues that CSR is a voluntary act that extends beyond what is required by law, directed by ethical ideals or the company's self-interest, and in which governments have a little role. When companies communicate their CSR contributions, they could gain legitimacy, obtain higher financial performance and enhance their

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image. When companies implement CSR practices, they can operate more efficiently and reduce compliance costs.

- **Helps in marketing:** Banks have also identified CSR as a marketing opportunity to differentiate their product along with a number of benefits such as customer retention and increased attractiveness to overseas investor. The combination of responding to social and market pressures to protect a brand's reputation and proactively seizing cost-saving technics is the so-called "business case" for CSR.
- **Effective management and safeguarding brand reputation :** Voluntary codes of CSR procedures help a company's interactions with its vendors become more reasonable, and they ensure that the company's whole supply chain follows uniform, well defined and principled ethical standards. Also, regardless of the underlying facts of the charges, negative news reports concerning human and labour rights abuses by vendors of multinational firm can have severe long lasting effects on organisations and their reputation.

ILLUSTRATION

During the pre-mandatory period, companies in India from all sectors contributed to society in variety of ways. The **TATA Group** has been a major contributor to CSR over time. It has made a contribution in both domestic and international market places. The corporation has also prioritised rural development by implementing a number of initiatives by satisfying five essential needs: Health, education, water and sanitation. ITC Limited is another leading Indian corporation that had made significant contributions to corporate social responsibilities throughout the year.

The voluntary CSR practice or principles can assist a corporation in achieving its goals and ensure the company's equity and reputation are not jeopardised.

NEGATIVE IMPACTS

The voluntary CSR practices can also impact negatively to the corporate sector who are doing their best to make expressive social changes into the society. But self-made procedures have their own boundaries.

- If we look at an example of United Nations Global Compact to which more than 700 companies have signed up. But many Non-Governmental Organisations strongly stand against this Global Compact because according to them the companies are just trying to show themselves as good corporate people without living up to their

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obligations. While voluntary CSR can be beneficial, they are not without their limitations. Even as companies' position and impact in our daily lives has grown, there has been a gap in the system for assuring their accountability.

- Many people no longer believe that CSR should be voluntary. The voluntary approach has been chastised for making it impossible to discipline damaging behaviours and for the lack of openness and confidence in CSR reporting.
- Corporations are given much too much latitude in implementing CSR policies under the voluntary model, and they are not even required to produce periodic reports on CSR implementation.
- Others who focus on social concerns have a very different perspectives. They believe that businesses are primarily motivated by profit and so cannot be allowed to create answers to major social problems on their own. This view can be a hinderance in effective implementation of CSR. Due to this they feel the need that government should mandate the CSR.
- One of the biggest challenge related to voluntary CSR codes and norms is to make sure that they are full implemented, observed and verified.²
- Due to the lack of enforceability of CSR norms, corporations may or may not implement CSR principles in their activities, implying that corporations have a large degree of flexibility in how they operate their enterprises.

The Ministry of Corporate Affairs (MCA), Government of India, made a concerted effort to give corporate social responsibility dynamics a shape and structure through a carefully crafted CSR mandate for certain companies under Section 135 of the Company's Act 2013, which is intended to drive positive social change as well as contribute to national development.

FROM PRE MANDATE TO POST MANDATE PERIOD OF CSR

As a developing country, India faces its own set of issues. On one hand it has the world's second largest population and on the other hand it ranks 131 out of 186 countries according to the Human Development Index (HDI). This indicates that India has a largest population of people with low life expectancy, education and income. Furthermore, India's environmental standards are about a decade behind those of the Organization for Economic Cooperation and Development (OECD) countries. As a result, not only does India need to improve its socio

²Abira_chatterjee, social compliance, social accountability and Corporate Social responsibility, Mainstream, vol. XLVI, No. 18 (Mar 24, 2022 11:08 AM) <http://www.mainstreamweekly.net>

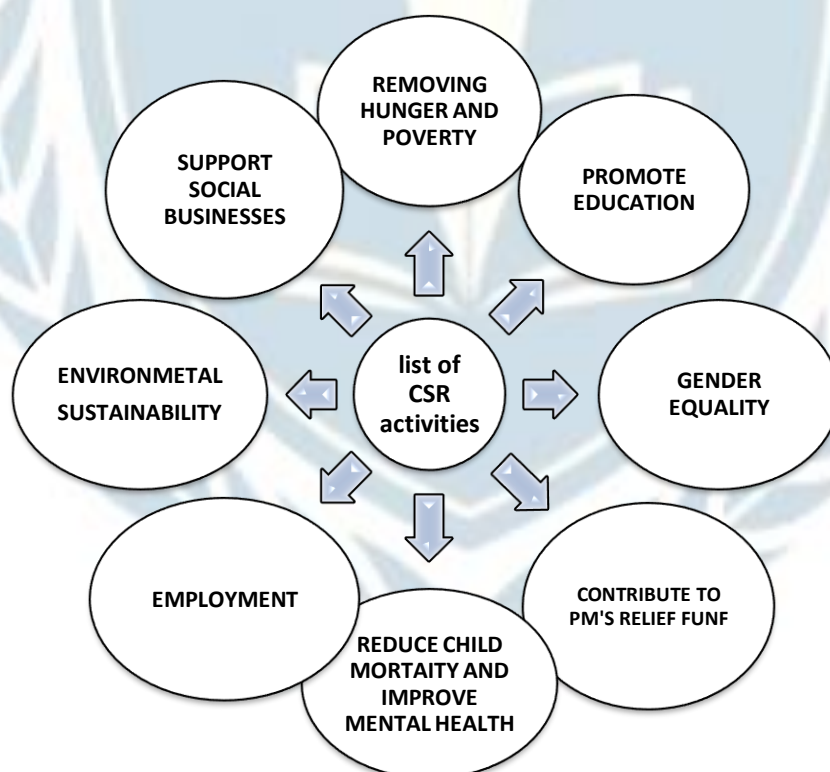
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economic indicators, but it also needs to improve its environmental indicators in order to transition to a developed economy. In these conditions, it is crucial that the national strategy focuses on empowering the impoverished and derived sector of society in order to accomplish significant and long-term human development and to generate inclusive growth that benefits people from all walks of life.

The mandate was motivated by a belief that the previous framework of voluntary, occasional corporate social responsibility has not been advantageous to the country's development. As a result, India's CSR requirement was established.

SCOPE OF THE MANDATE

Section 135 of the Companies Act, 2013 states that any company which is incorporated in India, whether it is subsidiary of any kind of foreign company or domestic, which is covered by the enclosure of bet worth of Rupees 5 billion INR or more, or a turnover of INR 10 billion or



more, or a net profit of INR 50 million or more should spend at least 2 percent of their average net profit in the previous three years on corporate social responsibility activities Schedule VII (Appendix 2) of the Act, specifies the parts where such CSR funds need to be spent.

FORMATION OF COMMITTEE

It also provide for the creation of the CSR committee, its formation and composition which

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includes three directors or more, out of which one director should be an independent director. It states the the duties of the committee includes formulation and recommendation to the board about the CSR policy which shall specify the practices that are to be take on by the company. Despite initial reluctance and jitters over the CSR mandate's implementation method during the transition period, the guidance defined under the section 135, Ministry of Corporate Affairs notification on February 27, 2014 clearly specify that the CSR mendate must be implemented.

IMPACT OF SHORT TERM AND LONG TERM CSR ACTIVITIES

There is no clear definition of what makes a short-term or long-term CSR activity because there is so much ambiguity. It can be characterised by examining its twin goals:

- the benefit provided to businesses and communities, as well as the kind of potential advantages in each scenario. Several companies engage in CSR initiatives that can be classified as 'pet charity projects,' as they only reflect the personal interests of the company's senior executives.
- Donations from corporations, for example, provide the majority of benefits to society, though the benefits to corporations are debatable. Indian corporations regularly engage in short-term CSR activities such as one-time donations to calamity victims, honouring athletes for their achievements, and sending school supplies to underprivileged children.

While firms invest a significant amount of money on these short-term CSR activities, they quickly discover that their impact is short-lived. A mess of disorganised CSR and charitable initiatives unrelated to the company's strategy will have no real social impact and will not help the company maintain its long-term competitiveness.

DEDICATED CSR DEPARTMENT

In most Indian companies, CSR is handled by the human resources department or the corporate communications department. These executives tend to divide their time between CSR and other corporate tasks, making it difficult for them to focus on CSR for long periods of time. The majority of CSR initiatives in India are sporadic and are either administered by an NGO or an external public relations firm. Clearly, there is a general lack of commitment to CSR's strategic dimensions.

Another severe issue with CSR practises is that most organisations do not have a CSR strategy, instead managing a slew of different CSR programmes and activities across the country. Some CSR initiatives will align with a company's fundamental business plan, while many will not. It

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is preferable to apply some discipline and structure to the various scattered components of CSR rather than attempting to weave them all.

COMPLEMENTING INTERNAL MARKET

Internal markets are frequently coupled with CSR efforts in order to fill institutional voids. By internalising public infrastructure in locations where the provision of public goods is weak, ” enterprises in emerging markets frequently engage in various development initiatives. He pointed out that several Indian business organisations have made significant investments in the constitution of industrial cities, roads, power and telephone, schools and hospitals are examples of self-sufficient infrastructure. As a result, businesses can employ their CSR efforts as strategic investments in a kind of governance that compensate their current governance compensate for institutional flaws.³

INTERNATIONALIZATION

CSR efforts also assist Indian businesses in expanding their wings in order to expand internationally. Internationalization of developing economy firm is lucrative and rapidly growing research area. CSR activities can aid Indian businesses in two ways. Firstly, companies with an active CSR portfolio may be able to recruit MNC’s as potential partners. This is due to the facts that it is clearly noted in the foreign entry. Secondly, a strong foundation. Indian companies may benefit from their positive reputation in the domestic market, which has been developed through proactive CSR.⁴

INFLUENCE ON NET PROFITS

A 2008 analysis that used a survey of over 500 sustainable enterprises based in the United States as a baseline for measuring earnings from CSR found that businesses struggle to establish a return on investment impact from CSR.⁵ CSR benefits have been demonstrated to be mostly indirect and intangible, making them difficult to evaluate. According to the responses to the survey, a substantial proportion of respondents believed that CSR activities will boost the corporate bottom line in the long run, but the advantage is impossible to quantify. This

³ Carney M. (2008). The many future of Asian Business groups. Asia Pacific Journal of Management, 25(4), 595-613

⁴ Mukherjee, D., Gaur, A.S., & Datta, A. , Creating value through offshore outsourcing: An integrative framework, Journal of International Management, 19(4), 377-389

⁵ Business-ethics.com, “Does Corporate Social Responsibility Increase Profits”(Mar 25, 2022 04:30PM) <http://business-ethics.com/2015/05/05/does-corporate-social-responsibility-increases-profits>

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difficulty is further worsened by Large corporations are being asked to include CSR into their fundamental strategies, making data separation and quantification problematic.

A SIGNIFICANT BUDGET INCREASE WILL RESULT IN GREATER NGO ACCOUNTABILITY.

NGO accountability is a difficult issue, and one of the most common complaints levelled against Indian NGOs is that they overspend on overheads. Nearly half of the donations are misappropriated, according to NGO watchdogs, primarily to finance hefty administrative costs of running organisations. While NGOs that generate donations in India are held accountable to the Indian people and corporate entities, funds raised from overseas contributors are not held accountable.

INCREASE RISK OF FUDGING ACCOUNTS

The most significant influence will have to be seen in the mindset shift among Indian corporate leaders, who continue to believe in maximising profits for shareholders while minimising any link to the hard Indian reality. While the mandate considers a company that has made a net profit of Rs 5 crore or more on average over the last three years, the bill is unclear on what happens if a company has had a profit and loss pattern during the previous three years. This opens up a lot of room for faking profit numbers and discovering loopholes through creative accounting.

Since the mandated requirements for CSR were passed in India, there has been much disagreement about whether they will be beneficial to society or not. Businesses have repeatedly spoken out against the forced practise of CSR. In a developing country like India, where issues like poverty, hunger, and sanitation still exist, and where people still live in poverty, the Ministry of Corporate Affairs' effort should be viewed as a positive step forward in ensuring that profit-making corporations contribute their fair share to the betterment of society as a whole. Companies that see this rule as a yearly requirement should adjust their perspective and see it as a chance to contribute to society.

CONCLUSION

In the short and long term, business is about balancing economic, social, and environmental challenges. It is a fundamental human activity that performs best when it is guided by clear aims and objectives. The role of the private sector has changed dramatically over the world. For

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a growing country like India, these developments are significant. Microfinance and new business models have paved the way for underdeveloped countries to make significant progress. Businesses in the twenty-first century will have no choice but to engage in CSR. The government and corporations should work together to establish a partnership between business and society.

Many industrialists have challenged the concept of mandated CSR expenditure and reporting, while many economists such as Friedman, Hannsman, and Mecey disagree. The suggested required 2% CSR spending is unappealing for two reasons: first, adequate execution is impossible, and second, social forces and voluntary operational norms are more effective. In addition, international organisations advocate for "soft norms" rather than legally obligatory "hard" regulations.

To make obligatory CSR acceptable to the Indian business community, the Government of India (GOI) must first persuade companies that it is not a tax; rather, companies who voluntarily implement mandated CSR norms would be duly acknowledged, and their tax burden will be reduced. Second, the Government of India (GOI) should guarantee industries that there will be no political pressure or interruptions in the creation and implementation of their policies. They should be aware that CSR has its own set of advantages. It will not only serve to raise the standard of life of individuals in the society where the business operates, but it will also help to build goodwill among their investors, customers, and the general public.

The success of CSR is down to the company's dedication to it, which is demonstrated by seeing it as a responsibility rather than an obligation. It is critical for the corporate sector to categorise and promote effective solutions that achieve tripartite wins: financial rewards, environmental sustainability, and social justice.

The key to CSR's success is to incorporate it into a company's overall development strategy. It is critical for corporations to discover, advocate, and execute policies and practises that produce triple bottom-line results: profit, environmental protection, and social justice.

As a result, CSR is not the same as charity or donations. CSR is a method of doing business in which corporations make a visible contribution to the greater good. Companies that are socially responsible do not limit their use of resources to initiatives that increase earnings solely. They use CSR to combine the company's operations and growth with economic, environmental, and social goals."

Corporate social responsibility is a niche area of corporate conduct and governance that needs to be vigorously addressed and implemented in firms with tact. At the same time, CSR is a

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useful tool for coordinating the efforts of corporate and non-profit organisations toward long-term growth and development of societal goals.

GOING ABOVE AND BEYOND THE MANDATE V. VOLUNTARY DEBATE

New definitions of CSR are beginning to highlight the need of both statutory and voluntary CSR regulation. Furthermore, the notion that required and voluntary CSR cannot coexist is incorrect. Self-regulation, private regulation, and governmental regulation are all examples of CSR regulation.

- Coordinating agency at the national or state level must be established so that corporate social responsibility spending is harmonised and CSR programmes are successfully implemented, resulting in balanced regional development.
- Also, pooling resources and creating synergies to apply optimal CSR practises in order to scale up initiatives and invent new ones in order to reach out to more recipients, hence increasing the effect of their effort. Although the activities listed in Schedule VII as recommended CSR activities are limited, the scope should be expanded by incorporating additional vital areas such as Human Rights, Disability, and so on.
- Contributions to the Prime Minister's National Relief Fund and other government-created funds are also included in the schedule; however, the Prime Minister's National Fund is not a government-created fund (Verdict by CIC, A.K Goel vs PMO, 2009) therefore the PM Relief Fund should be excluded from the list of funds.
- CSR activities that provide employees and their families with "exclusive" benefits are not considered CSR. Some (even if infrequent/ minor) benefit to the local community can lead to the action being classified as CSR. Industrialists propose that the Income Tax Act of 1961 be amended to allow CSR expenditure to be deducted as a business expense.

CSR is still in its early stages in India. Seeing to the Indian government's most desired move toward social welfare through economic reforms and involving well-economic corporate performers by adding a provision of mandated 2 percent CSR spending of Net Profit on August 29, 2013 under the Companies Act 2013. India has made significant progress in the transition from Voluntary to mandatory CSR. But, more needs to be done.

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