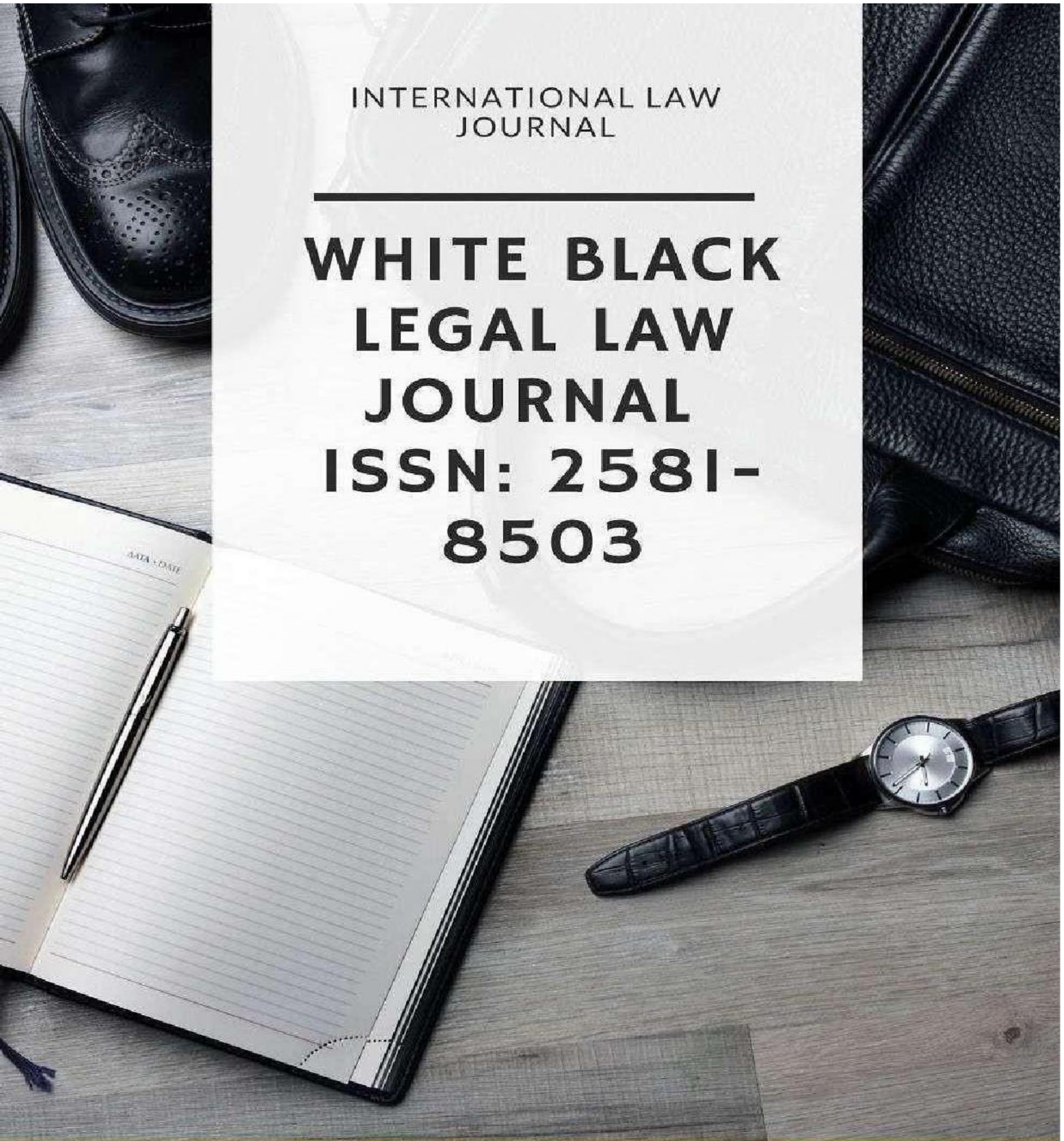

INTERNATIONAL LAW JOURNAL

WHITE BLACK LEGAL LAW JOURNAL

ISSN: 2581-8503

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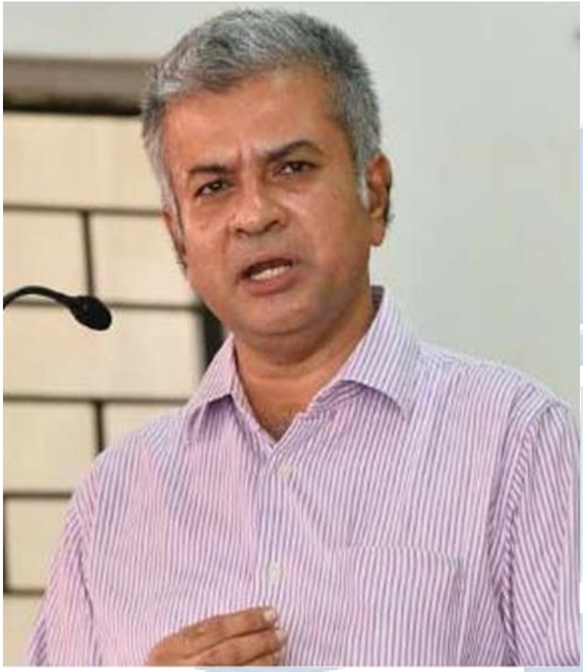

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Volume 3 Issue 1 | Feb 2025 ISSN: 2581-8503

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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

A STUDY ON THE IMPACT OF CORPORATE GOVERNANCE LAWS ON CORPORATE SOCIAL RESPONSIBILITY IN INDIA

AUTHORED BY - BHUVANESVARI SELVAM
BCOM LLB Hons 10th Semester, Presidency University, Bengaluru

ABSTRACT

Corporate governance and Corporate Social Responsibility (often known as CSR) are two ideas that are intertwined and play significant roles in determining the actions and behaviours of organisations. Over the course of the last several years, there has been a rising acknowledgment of the value of corporate social responsibility efforts in supporting sustainable growth and relating to societal concerns. In the context of India, this research investigates the influence that corporate governance regulations have on corporate social responsibility activities. At this point in time it is contingent upon the type of the organisation as well as its dedication to a particular cause. It has always been important for a business to have a favourable relationship with the community in which it operates (also known as the community in which it operates).

In recent years, India has seen significant advancements in both the legislation governing corporate governance and the efforts of CSR. Within the scope of the Companies Act of 2013, a number of rules were implemented with the intention of raising the level of openness, accountability, and ethical behaviour within firms. Over the same time period, the government of India required corporate social responsibility expenditure for certain kinds of businesses, effectively institutionalising CSR inside the structure of corporations.

This research investigates the link between corporate governance laws and the level of corporate social responsibility (CSR) implementation in India by conducting a thorough assessment of the relevant literature and conducting an analysis of important legislative provisions and company practices. This paper investigates the ways in which governance mechanisms, including as board structures, disclosure requirements, and stakeholder participation, have an impact on corporate social responsibility result and decision-making.

In addition to that, this research delves into the difficulties and prospects that are connected to the incorporation of corporate social responsibility into corporate governance frameworks. The need of linking CSR goals with larger company strategy and cultivating a culture of responsible business behaviour is brought to lighting by this.

Keywords: Corporate Governance, Corporate Social Responsibility, Companies Act.

CHAPTER 1

INTRODUCTION

Corporate governance forms the foundation of sound business practices, fostering robust decision-making processes through established procedures, practices, and policies. It encompasses a set of regulations, practices, and processes that oversee and regulate an organization's operations. CSR provides a framework for achieving organizational objectives, spanning activities ranging from internal controls to performance evaluation and corporate transparency. Effective corporate governance contributes to positive financial outcomes, facilitating efficient capital raising for companies and ensuring stability in product pricing within the market.

Moreover, it helps mitigate risks, reducing the likelihood of corruption and mismanagement. By providing appropriate incentives, corporate governance encourages both owners and management to pursue objectives aligned with the interests of shareholders and the company as a whole.[1].

Corporate Governance manages the way the provider of finance guarantees themselves of obtaining fair returns while they are investing. Corporate Governance obviously differentiates among the owner and the manager. The management of the company is the deciding power. In current firms, the function/task of management must be evidently explained, rather, harmonizing[2].

Corporate governance endeavoured to study the means by which competent management of organisations might be secured and motivated by the use of incentive mechanisms such as

[1] Irani and Prabhu CorporateGovernance: Vikalpa, (2015)
[2] Dube Indrajit," Corporate Governance (Lexis Nexis Butterworths Wadhwa, 2009)

contracts, organisational design, and regulation. The scope of this inquiry is usually limited to the question of how to increase financial stability. For example, how the management of the firm may ensure or incentivize the corporate manager to produce competitive rates of profits.

Corporate governance laws serve as the foundation for establishing frameworks that regulate the behavior and operations of corporations, ensuring transparency, accountability, and ethical conduct. Concurrently, CSR has emerged as a critical aspect of corporate behavior, emphasizing the responsibility of businesses towards society and the environment. In the Indian context, the relationship between corporate governance laws and CSR practices is of particular interest due to the country's unique socio-economic landscape and regulatory environment.

CSR is a concept that asserts companies' obligations to society. By addressing societal needs, CSR reduces costs and challenges, thereby enhancing the firm's brand value and reputation. CSR serves as a focal point for various activities aimed at promoting social and economic development in society. In countries like India, where various socio-economic challenges exist, the implementation of CSR policies through the The Companies Act (TCA 2013) represents a significant step in broader socio-economic development strategies.

It's essential to assess how these government initiatives are functioning and their impact on businesses, social welfare, and economic growth. Understanding the extent to which organizations comply with the Act's mandate to allocate 2% of their revenues for CSR expenditure, how they utilize this mandatory amount, and whether they adhere to specific provisions of social responsibility policies is crucial.[3]

With its thorough clauses to improve openness, responsibility, and shareholder involvement within companies, TCA 2013 was a turning point in India's corporate governance scene. The Act also required certain types of businesses to set aside some of their earnings for CSR projects, therefore formalising CSR within the legal framework controlling businesses.[4]

This intersection of corporate governance laws and CSR mandates presents a compelling area

[3] Kaif M, Corporate Responsibility in India <https://taxguru.in/company-law/corporate-social-responsibility-india-legal-framework-developments.html>> accessed on 25th March 2024
[4] Dixit, Verma and Priya, , "Corporate social responsibility motives of Indian firms", JMM (2021)

of study, offering insights into how regulatory mechanisms influence corporate behavior towards societal and environmental concerns. Understanding the impact of corporate governance laws on CSR practices is essential for policymakers, regulators, and corporate leaders to effectively promote sustainable and socially responsible business practices in India.

By means of a thorough analysis of the Indian corporate scene, this paper aims to offer insightful analysis for legislators, business leaders, and other stakeholders aiming at promoting responsible and sustainable corporate practices in India.

In the subsequent sections, this paper will delve into the evolution of corporate governance laws and CSR regulations in India, followed by an analysis of their impact on corporate behavior and societal outcomes. Additionally, it will discuss the challenges and opportunities inherent in aligning governance mechanisms with CSR objectives, aiming to offer actionable recommendations for enhancing the synergy between corporate governance and CSR practices in India.

In today's interconnected global landscape, there's been a significant increase in the dissemination of information to individuals about the economic, socio-cultural, and environmental aspects of business operations. Consequently, various adverse impacts of business practices such as child labor and environmental degradation are being recognized worldwide, alongside other social and economic issues. CSR has emerged as a crucial concept and strategy to address these socio-economic and environmental challenges.

By means of their CSR activities, this study compares public and private sector organisations to ascertain their respective contributions to socioeconomic growth and environmental preservation. The project also seeks to look at cases of companies abusing CSR initiatives[5].

PROBLEM STATEMENT

Despite the fact that India has achieved great progress in both the legislation governing corporate governance and the activities pertaining to corporate social responsibility (CSR), the exact influence of corporate governance laws on the execution and efficacy of CSR is still a

[5] Sanjay K. Agarwal, Corporate Social Responsibility in India, (Sage Publications, 2013)

topic of discussion and investigation.. Despite the introduction of comprehensive legal provisions mandating CSR expenditure and enhancing corporate governance transparency and accountability through laws like the Companies Act of 2013, there is a need to examine the extent to which these laws influence CSR practices within Indian corporations.

Key questions arise regarding the relationship between corporate governance laws and CSR in India. Do governance mechanisms such as board structures, disclosure requirements, and stakeholder engagement provisions effectively promote CSR activities within corporations? How do companies interpret and respond to CSR mandates within the broader framework of corporate governance regulations? Are there significant disparities between regulatory compliance and genuine commitment to CSR objectives? Furthermore, what challenges and barriers hinder the integration of CSR into corporate governance frameworks, and how can these obstacles be overcome?

It is essential for policymakers, regulators, and business executives in India who are interested in improving the connection between corporate governance and CSR aims to address these concerns. The stakeholders are able to identify areas for improvement, create targeted interventions, and cultivate a culture of responsible and sustainable business behaviour when they have a thorough grasp of the influence that governance rules have on corporate social responsibility practices.

The paper aims to offer empirical insights into the mechanisms, obstacles, and potential benefits of incorporating CSR into corporate governance structures. By thoroughly analyzing relevant legal statutes, corporate behaviors, and empirical evidence, this study seeks to deepen comprehension and provide actionable suggestions for improving the alignment between corporate governance and CSR activities within the Indian setting.

RESEARCH OBJECTIVES

- to study the mechanisms through which corporate governance laws, including board structures, disclosure requirements, and stakeholder engagement provisions, impact the adoption and execution of CSR practices.
- To examine the level of compliances with CSR mandates mandated by corporate governance laws and identify factors that influence companies' adherence to these laws.

- To identify the issues and challenges hindering the effective integration of CSR into corporate governance frameworks and assess strategies for overcoming these hindrances.

RESEARCH QUESTIONS

1. How do corporate governance laws, like TCA2013, influence the execution and execution of CSR initiatives among Indian companies?
2. To what extent do Indian corporations comply with CSR mandates mandated by corporate governance laws, and what factors contribute to variations in compliance levels?
3. What are the key challenges and barriers hindering the effective integration of CSR into corporate governance frameworks in India, and how can these obstacles be addressed?
4. What is the impact of governance-driven CSR initiatives on societal outcomes, including community development, environmental sustainability, and stakeholder welfare, in the Indian context?
5. What are the potential implications of the relationship between corporate governance laws and CSR practices in India for future research and practice in the field of corporate governance and CSR?

LITERATURE REVIEW

Patel (2020)[6] proposes that corporate social responsibility is a vital section of business growth strategy where inconsistencies occur among revenue and social objectives, or dispute can take place over equality issue. There are many communal segments where companies can play an important part in CSR and can generate social goods for its people. CSR initiatives might be gainful aspect for business strategy, building brand image, improving customer relations, and employee efficiency and to the preservation of association that is significant to long run productivity.

An article of Anshul Agarwal[7] (2014) investigated business has been influenced by the crisis in CSR areas such as - Socio-political and economic - and stakeholders issue identified in

[6]Parvat. R Patel, CSR in India – A Path To Achieve Sustainable Development Goal, IJCRT, Volume 8, Issue 12 Dec 2020

[7] Anshul Agarwal (2014), “The New Spectrum of Corporate Social Responsibility in Emerging Economies”, IJEMR 2014

Indian companies. At present companies have become conscious about the significance of community for long tern success of businesses.

Monica Aggarwal (2013) points out that in emerging nations such as India, where there are different socio-economic issues confronting the people generally, the implementation of CSR policies via the Companies Act in 2013 is a significant step in the overall socio-economic expansion strategies. It is important and relevant to assess the effectiveness of government initiatives and their impact on businesses, social dynamics, and economic progress. It's crucial to understand the extent to which organizations comply with the mandate of allocating 2% of their revenues for CSR expenditure, how they utilize this required amount, and whether they adhere to the specific provisions outlined in social responsibility policies.

Chatterjee D. (2010) in “Corporate Governance and CSR: The case of three Indian firms” tried to analyze the CG activities of major Indian enterprises. The research discovered that while corporate governance activities are commendable overall, there are variations in how companies embrace these practices. Infosys appears to outperform the other two companies significantly.

Akanksha Jain (2014)[8] point out those organizations so as to fabricate CSR expenditure makes use of charitable trusts. Environmental injustice is identified as a significant factor contributing to the misapplication of social responsibility initiatives by companies. The article suggests that while generating profits is an inherent aspect of business operations, engaging in CSR activities surpasses both natural and legal obligations of firms. In summary, the paper emphasizes that sustainable development entails the balanced advancement of both the community and the corporation.

Upadhyay et al (2021)[9] in their research article discussed briefly concerning how companies have volunteer during this crucial era of Covid-19 when the communal and financial situations of all the nations are not good.

[8] Akanksha Jain (2014) “The Mandatory CSR in India : A Boon or Bane”, Indian Journal Of applied Research , Vol: 4, Issue : 1,pp 301-304.
[9] Upadhyay, Niteesh Kumar &Rathee, Mahak. (2021). An Analysis Of Corporate Social Responsibility In India Vol. 1 Núm. 1, 2021 42-61.

RESEARCH METHODOLOGY

The methodology included in carrying out this research will be based on a doctrinal research. Therefore, the data collection process will encompass a range of primary and secondary sources obtained from libraries, court records, and legislative acts. This research is primarily theoretical and exploratory, drawing upon pertinent provisions outlined in documents like the Companies Act of 2013, Companies Rules of 2014, and other relevant literature. The basis of the study are pronouncements of Courts, Law books, Articles in law journals and relevant websites.

CHAPTER 2

EVOLUTION AND CONCEPTS OF CSR

CONCEPTS AND MEANING

Corporate governance is a blend of rule, regulations, process or law by which business is functioned, regulated or managed. CG covers the internal and external drivers that influence the interest of an organization's stakeholder, comprising shareholder, customer, supplier, government regulator and administration. The BODs are accountable for making the frameworks for CG that best align businesses conduct with goals.

In simple way, CG is defined as the structure of custom, process, practice, policy, and rules that influence the means individuals direct, control, and run an enterprise. It's a commitment to make sure that responsibility, diversities, transparencies, and equality are upheld by the firm. It is an internal system directing an organization to create decisions that are fair and moral for all its stakeholders while working to make profits.

It is considered with holding the balance among financial and societal purposes and among person and societal objectives. The governance frameworks are there to promote the effective utilization of resources and equally to need liability for the stewardship of these resources. The basic purpose is to bring into line as nearly as possible the interest of people, companies and community[10].

Codes of behaviors that identify guidelines for the apparent administration and control of firms is called as CG. CG makes intelligibility, strengthens self-assurance in managing a firm and specifically serves the safeguard of the shareholder and stakeholder. CG is a means

[10] Aparna Sharma, "Legal Framework and Corporate Governance: An Indian Perspective", 15 IJCEM 10 (2012)

whereby civilization can be sure that big companies are famous institutions to which investor and lender can assertively consign their funds. Conversely, it denotes generally to the rule, process, or law by which business is functioned, regulated, and controlled. It an earnest commitment of making and sustain a moral business culture in government and private sector. There are different committees have proposed means to make stronger CG[11]. The key definitions are:

According to Monks and Minow CG is,

"Relationships among various participants in determining the direction and performance of a corporation"

The initial participant in an organization is the tripod of shareholder, management led by the CEOs and BODs. There are other members as well as the workers, customer, supplier, creditor and the society. Maintaining the interests of different stakeholders in an enterprise, CG is considered with effectual management of association.

World Bank defines:

"CG is about promoting corporate fairness, transparency, and accountability."[12]

The KM Birla Committees constitutes by S.E.B.I has opined:

"Strong Corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of the transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure."

NR Narayana Murthy Committees by SEBI points out:

"Corporate Governance is the acceptance by management of the inalienable rights of the shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company"

The stakeholder's theory of CG aims on impact of corporate practices on every certain stakeholders of the enterprise. It asserts that the administration of a corporation, including officers and directors, is obligated to take into account the interests of all stakeholders in the governance procedures of the corporation. It includes taking attempts to reduce or mitigate the clashes among stakeholder interests.[13]

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[11]Subramanian S, Swaminathan, Corporate governance in IndiaThe IUP Journal (2008)
[12]Ibid
[13] Das Subhash, Corporate Governance in India- An Evaluation (PHI Learning Pvt. Ltd.,New Delhi, 2009)

CSR

A broad transmission of information about the economic, socio-cultural, and environmental elements of corporate operations is occurring as the globe continues to become more linked as a result of globalisation. As a consequence of this, firms are being held responsible for harmful activities such as the use of child labour and the damage of the environment, in addition to other various social and economic problems. The notion of Corporate Social Responsibility (CSR) has evolved as an important approach and concept for addressing the socio-economic and environmental concerns that are now being faced. In the present study, a comparative analysis is being conducted with the objective of evaluating the contributions that organisations from both the public and private sectors have made to the advancement of socioeconomic development and the preservation of the environment via their corporate social responsibility efforts.

CSR faction started as responses to advocacy for companies to play an important role in ameliorating social issues because their monetary power and overarching existence in everyday life. At present, the movement is transforming from its reliance on purely intentional activity to the greater application of laws. The thrust for legalization came because charitable CSR presented issues like free-riding (organizations captivating advantage of benefit without really spending), green washing pose as CSR, and bogus disclosure.[14]

Discussion will be sparked by the comparative examination of corporate social responsibility (CSR) between public and private sector enterprises among academics, researchers, and policymakers, encouraging collaboration on diverse aspects of CSR. Successful implementation models by certain companies have demonstrated sustainable impacts at the community level, enhancing the well-being of grassroots populations. However, there is a need for other corporate entities to adopt these successful models more vigorously through replication. The fundamental objective remains to generate maximum societal returns and contribute to sustainable growth.[15].

Although corporate social responsibility (CSR) has been universally accepted as helpful up to

[14] Bansal, H., Parida, V. & Kumar, P. (2012). Emerging trends of C.S.R in India. KAIM Journal of Management. Vol.4. No. 1-2

[15] CS Rupanjana De, A Practical Guide to Corporate Social Responsibility Law, Accounting and Taxation aspects, Bloomsbury Publishing, 2017

this point, it is not possible to say with absolute certainty that it has completely fulfilled its goals in general. A significant contributor to this is the ineffective enforcement of applicable laws and provisions, which is one of the key causes behind this. It is possible that just legislating actions related to corporate social responsibility would not be adequate. Identifying trustworthy projects that businesses may sponsor as part of their corporate social responsibility programmes is a big difficulty that must be overcome.

Development of CSR in India

The development of corporate social responsibility (CSR) in India may be broken down into many phases, each of which was impacted by changes in the economic, social, and regulatory environments. It has been pushed by both internal and external forces that the path of CSR in India has developed from conventional charity to a strategy that is more strategic and integrated. The following is a summary of the most important stages in the development of corporate social responsibility in India:

Philanthropy and philanthropic efforts carried out by affluent industrialists and business families were the primary drivers of corporate social responsibility (CSR) initiatives throughout the interval before to the country's independence. At a time when there were no explicit standards governing corporate social responsibility, these projects concentrated on providing fundamental amenities such as education, healthcare, and community development.

Following India's independence in 1947, the government played a significant role in promoting social welfare through various policies and programs. However, CSR initiatives by businesses remained largely voluntary and sporadic, with limited formalization or regulatory oversight.

The economic reforms of 1991 signaled a pivotal moment in India's CSR trajectory. The opening up of the economy and the acceleration of globalisation brought to an increase in the amount of pressure that was placed on corporations to participate in sustainable development and to address social and environmental concerns.

One of the most significant steps forward in the development of CSR in India was the passage of the Companies Act in the year 2013. To comply with this rule, certain types of businesses were compelled to contribute a certain amount of their revenues to CSR activities. Through the establishment of mandated corporate social responsibility expenditure for businesses that satisfy certain financial conditions, the Companies Act formalised corporate social responsibility as an essential component of corporate governance.

As a result of the publication of the National Voluntary Guidelines in 2011, enterprises were supplied with a comprehensive framework that enabled them to incorporate social, environmental, and economic factors into their operations and decision-making processes. These standards provide the groundwork for corporate social responsibility procedures and pushed corporations to embrace responsible business behaviour, despite the fact that they were originally optional.

Along with the implementation of legislative obligations, the government of India has also initiated a number of efforts to encourage corporate social responsibility (CSR). These initiatives include the Swachh Bharat Abhiyan (Clean India Mission) and the Skill India. Public-private partnerships, on the other hand, have emerged as a crucial tool for the implementation of corporate social responsibility programmes. These collaborations use the resources and experience of both sectors in order to have a higher effect.

Over the course of the last several years, there has been a discernible movement towards strategic corporate social responsibility (CSR), in which businesses incorporate CSR into their fundamental business strategies and value chains. This approach emphasizes long-term sustainability and positive social impact while aligning CSR initiatives with business objectives.[16]

Focus on Sustainability Reporting: With increased scrutiny and stakeholder expectations, there has been a growing emphasis on CSR reporting and disclosure. Many Indian companies now publish annual CSR reports, detailing their initiatives, impact, and future plans, demonstrating a commitment to transparency and accountability.

CSR ACTIVITIES OF INDIAN FIRMS

The Corporate Social obligation (CSR) concept of Hindustan Unilever (HUL) is profoundly founded in the company's obligation to all stakeholders, including consumers, workers, the

[16] Corporate Social Responsibility in India <https://www.india-briefing.com/news/corporate-social-responsibility-india-5511.html/> accessed on 24th March 2024

environment, and the communities in which it conducts its businesses. HUL places a high priority on the sustainable procurement of raw materials and is committed to reducing its environmental impact in order to improve the sustainability of its value chains throughout the whole organisation. Over the years, HUL's CSR initiatives have received numerous accolades. In 2018-19, the BCC honored HUL with the 'Corporate Citizen Award'. Additionally, HUL received special recognition from the Ministry of Jal Shakti for its contributions to the Swachh Bharat Mission and effective management of plastic waste. Furthermore, HUL's Project Shakti, an innovative CSR program, was recognized as a highly commendable pioneering initiative at the 2019 Finance for the Future Awards.

HUL, via its well-known brand of soap called Lifebuoy, disseminated the message that it is important to wash one's hands often with soap, hand washing, or alcohol-based hand sanitizers in order to combat the spread of the COVID-19.

It is ITC Limited. It is the principle of the International Trade Commission (ITC) that the performance of an organisation should be determined by its contribution to the creation of economic, societal, and environmental capital with the goal of enhancing the sustainability of the community. This is in recognition of the fact that businesses serve as the financial organ of the community and draw on the resources of society. In many different ways, the company is helping to the growth of rural areas. ITC's eChoupal CSR initiative, which has reached the pinnacle of social growth in the worldwide circle, has become the gold standard. Through the use of digital instruction and the empowerment of financial resources, eChoupal has not only inspired a large number of planters throughout the years. Additionally, it has been imitated by a large number of other businesses with the purpose of promoting social well-being in respective areas.

The company invested more than Rs.326.5 crore on CSR activities in 2019, surpass it spend for 2018. TCS has ongoing social ventures in environmental conservations, organic farming, healthcare, online education, women empowerment, sports and culture.

Grasim Industries Ltd: The Company has raised its CSR spent by around 45% since the 2020. Grasim’s CSR expenditure Rs.84.66 crore in 2021 as against Rs.47.14 crore in 2020 and it ranked 9th among the leading Indian enterprises for Sustainability and C.S.R. The company focuses for schooling, medical, sustainable livelihood, community development, mitigate climate change, etc. Grasim functions 6 company schools with strength of 6,350 students.

Infosys: In the year 2021, the company has spent Rs. 325.30 crore on different ventures and given Rs. 49.50 crore to the Unspent CSR Accounts. The company involved in the fields of safeguard of national heritages, restoration of historical site, and endorsement of art and civilization; care of backward people and rehabilitation; ecological sustainability and ecological balance; education, healthcare, rural development and boosting skills development.

Tata Group

The Tata Group of companies undertakes various CSR initiatives, primarily focusing on societal development and poverty alleviation programs. Additionally, the company is involved in activities aimed at empowering women, promoting rural development, enhancing agricultural practices, protecting the environment, and improving infrastructure. In the field of education, the company provides scholarships and endowments to support schools and colleges. Furthermore, the company offers medical facilities, including child education support, immunization programs, and AIDS awareness campaigns.

CHAPTER 3

CORPORATE GOVERNANCE LAWS AND CSR

CSR and the Constitution of India.

As per Section 135 of the Companies Act of 2013, businesses that achieve specified thresholds are obligated to provide a portion of their profits to CSR. However, any regulation that violates the Constitution, namely Article 14 or 19(1)g, in this context would render it unlawful. It is now common knowledge that the judicial system has the authority to declare state legislation unconstitutional on two primary grounds: (i) a lack of legislative competence; and (ii) a violation of basic rights protected by the Constitution. In conjunction with Article 246(1), which grants exclusive legislative authority to Parliament to enact laws related to, among other things, the incorporation, regulation, and winding up of companies, Section 135 is intended to regulate the corporate social responsibility activities of companies. It falls within the scope of entries 43 and 44 of the Schedule VII of the Constitution. As a result, the argument that the absence of legislative competence is not relevant in this scenario would not be applicable. Each and every person is guaranteed, according to Article 14 of the Constitution, that they would be in a state of equilibrium under the watchful eye of the law and of equal protection under the law within the territory of India. In any case, Article 14 allows for the reasonable characterisation of the objects of the legislation; but, it does not authorise mediation. The Supreme Court has consistently ruled that characterisation is significant only in the event that (i) it is built on a clear differentiation and (ii) the differentiation has a plausible link to the item that was intended to be achieved by the resolution that is being referred to[17].

There is no way that the straightforward order of enterprises that is reliant on total assets, turnover, and net profit with the ultimate purpose of S.135 could be said to be in violation of Article 14. Notwithstanding this, Section 135 handles businesses in a comparable manner regardless of the conditions, as follows:
According to S.135 (1), when an organization has met any of the limits identifying with total assets, turnover or net benefits, it comes surprisingly close to S.135 for all future focuses on schedule (but to the degree excluded under rule 3(2) of the CSR Rules).Thus, an organization which doesn't meet the edges at a future point in time would all things considered keep on being obliged to spend on CSR activities.

As long as it satisfies the criterion of "average net profits," the duty of an organisation to contribute to corporate social responsibility (CSR) is deemed to be similar regardless of whether the organisation is a profit-making or a non-profit-making business. firms that are registered under Section 8 of the Act are legally required to use their earnings purely for the purpose of promoting their goals, and Section 135 applies to these firms as well. However, the legal validity of the exclusions that are allowed by rule 3(2) of the CSR Rules is problematic. This is due to the fact that these rules have been developed under Section 469 of the Act, which does not authorise the authority, operating under delegated power, to offer any exemptions. Therefore, Section 135 violates Article 14 of the Constitution because it treats people who are not equal as if they were equal people.

The following question that has to be answered is how to determine whether or not the limitations established by Section 135 violate the Constitution. In the interest of the general public, the provisions of Art.19 (2)-19(6), which enable the state to make laws that impose reasonable limits on the exercise of the right conferred by Article 19(1)(g), are subject to the

[17]D.S.Nakara V. Union of India (AIR 1983 SC 130),MadhuLimaye v Superintendent, Tihar Jail, Delhi and Others Writ Petition No. 318 of 1970

terms of Article 19(1)(g), which require that the state comply with these provisions. Article 19(6) has been construed in a wide manner by the Supreme Court, which has emphasised that the reasonableness of limits need to be considered in an objective manner, taking into consideration the interests of the general public, rather than the viewpoint of individuals on whom the restrictions are imposed[18].

The Head Arguments, On Merits, For Striking Of S.135 As Unlawful Opposite Article 19(1) (G) Would Be As Per The Following:-

i. It is only the government's reassessment of its role to provide its inhabitants with medical care, training, accommodation, and other vital life-supporting comforts that is the sole thing that S.135 is. On the other hand, the public authority is not abdicating its obligation; rather, it has opened up a new avenue of public government help that does not impose any financial cost.
ii. The negative influence that businesses have on the general public is not something that is intended to be restricted by S.135 in any way. It is applicable to businesses that continue to operate a broad variety of organisations, and not to those that pose threaten society as a whole.
iii. The purpose of S.135 is not to assist in the fulfilment of essential rights enjoyed by residents, which would be stifled in the absence of this legislative measure.
iv. There has been no investigation or concrete evidence made to suggest that the benefits of demanding a CSR expenditure in accordance with S.135 would, in any way, be greater than the benefits of not ordering such a spend.

TCA, 2013 and CSR

The Companies Act of 2013 has included a number of regulations that will alter the manner in which Indian corporations conduct their business. One of these laws is the introduction of CSR initiatives[19].

In India, the regulations that pertain to Corporate Social Responsibility (also known as CSR) are outlined in detail in S.135 of the Companies Act of 2013.

[18] In Union of India v. International Trading Company (2003) 5 SCC 437
[19] Company Act 2013: CSR and Corporate India, DNA India, http://www.dnaindia.com

Companies that have a net value of INR 500 crore or more, a turnover of INR 1,000 crore or more, or a net profit of INR 5 crore or more during any given financial year are eligible for Section 135's application. This provision applies to certain categories of businesses that fulfil particular financial criteria.

Spending on Corporate Social Responsibility (CSR) is obligatory for covered businesses, who are expected to spend at least 2% of their average net income from the three financial years before to the current one on CSR initiatives.

Establishment of a Corporate Social Responsibility Committee Companies that achieve the financial requirements outlined in the Act are obliged to establish a CSR Committee that is comprised of three or more directors, with at least one member being an independent director. Policies Regarding Corporate Social Responsibility (CSR) The CSR Committee is tasked with the responsibility of establishing and proposing to the Board a CSR policy. This policy will outline the activities that the firm will engage in, as outlined in Schedule VII of the Act. Companies that are covered are required to publish their corporate social responsibility (CSR) activities in their annual reports. This disclosure must include the amount of money spent and the initiatives that were carried out.

Reporting: CSR Committee is responsible for monitoring the execution of the CSR policy and providing monthly reports to the Board.

In the event that a corporation fails to fulfil its CSR requirements, it may be subject to penalties such as monetary fines and the possibility of legal action being taken against the company and its personnel.

Section 135 of the enterprises Act of 2013 has played a key role in the institutionalisation of corporate social responsibility (CSR) activities among Indian enterprises. This section has also had a considerable influence on the behaviour of corporations with regard to social and environmental responsibilities[20].

[20] Rakesh Nangia, A closer look at CSR law, The Hindu Businessline, Feb 21, 2021

Provisions regarding CSR under Companies Act, 2013

For the purpose of determining whether or not the conditions outlined in Section 135(1) of the Companies Act 2013 are met, each and every company that is established in accordance with the Companies Act of 2013 will be required to declare the net profits that it has accumulated over the course of the fiscal year. The rules that govern Indian companies incorporated within the act are different from the rules governing Foreign Companies in this aspect.

For an Indian Company

The calculation of a company's net profit is conducted in accordance with Section 198 of TCA 2013, primarily determined as NPBT. The CSR Rules explicitly outline the method for computing net profit. According to these rules, profits generated by a company from its overseas branches or dividends from other companies are excluded when calculating the company's 'net profit'. The CSR fund allocation, which is set at 2%, is computed as 2% of the average profits earned by the company over the last three financial years.[21].

For a Foreign Company

In accordance with the profit and loss accounts and balance sheet of the foreign company, as constituted under Section 381(1)(a) r/w Section 198 of the Companies Act, the Rules provide that the net profit of a foreign company that has been formed in India must be assessed in accordance with the information provided by the foreign company.

The regulations for corporate social responsibility (CSR) are applicable to Private Limited and Public Limited firms, as well as their holding and subsidiary firms, or foreign corporations having offices in India, if they fulfil any of the following conditions, as stated in Section 135 of the corporations Act of 2013.

In any given fiscal year, the corporation must have a net worth that is at least Rs. 500 crore on the balance sheet.

It is required that the company's yearly turnover be at least one thousand crores of rupees during any given fiscal year.

[21] C.V. Baxi, Ajit Prasad, Corporate Social Responsibility: Concepts and Cases,[1st edn, Excel Books 2015

It is required that the corporation have a net profit of at least five crores of rupees throughout each and every fiscal year.

It is essential that a firm spend at least two percent of its average net income from the three most recent fiscal years on corporate social responsibility initiatives if the company satisfies any of these predetermined requirements.

By establishing more stringent restrictions, the amendment concerning corporate social responsibility for businesses attempted to improve compliance. Companies were able to move any CSR monies that had not been spent into a separate account, and they were required to use those funds within a period of three years thereafter. In the event that the terms of CSR are not adhered to, the Registrar of Companies may take action, which may include deregistering the business[22]

Companies (Amendment) Bill, 2020

According to this Act, businesses that achieve specific financial levels are required to create CSR Committees and contribute 2% of their average net earnings over the course of the previous three fiscal years to activities related to CSR. Under the terms of the bill, businesses that have CSR commitments of up to Rs 50 lakh yearly are exempt from the need to establish CSR committees. In addition, any excess funds that are spent on corporate social responsibility within a given year may be deducted from future CSR commitments.

Subsection 6 of Section 135 has not been altered, and it continues to mandate that businesses must transfer any CSR monies that have not been spent on existing initiatives to a designated account within thirty days of the end of the fiscal year. Within a period of three fiscal years, this money, which is appropriately referred to as the "Unspent Corporate Social Responsibility Account," must be used for CSR activities. In the event that this is not done, the monies will be transferred to a particular fund listed in Schedule VII within thirty days after the conclusion of the third fiscal year. This amendment bill has recommended a more severe penalty, which would result in a larger financial burden being placed on businesses in the event that they are able to evade their responsibilities to the country and society. This will guarantee that the firms are taking their role towards society seriously and are eager to contribute towards the good of

[22] Saurabh Kumar, Corporate Social Responsibility under Companies Act,IPleaders (28 June 2018)

society, whether it be out of fear of being sanctioned or out of a want to do so freely[23].

CSR in 2021: Comply or Pay Penalty

In accordance with Section 135 of the Tax Code of 2013, corporations that achieve specified financial levels are required to engage in corporate social responsibility (CSR). They were obligated to devote at least two percent of their yearly average net income over the course of three years to CSR efforts. In accordance with the provisions of Schedule VII of the Act, these activities embraced a wide range of domains, including but not limited to the environment, education, gender equality, and the reduction of poverty. In the beginning, compliance was optional, and it was based on a "comply or explain" approach. Companies who did not comply were forced to submit explanations in their reports. However, in response to severe compliance gaps, the Companies (Amendment) Act 2019 established stronger penalties, including jail, and shifted the strategy to "comply or pay a fine." There were also large compliance gaps..

IMPACT OF 'THE COMPANIES (AMENDMENT) BILL, 2020' ON CSR

Key highlights

Under the recent amendment, companies can now carry forward excess spending on CSR beyond the mandated 2%. This means if a company spends more than 2% of its average net profits from the preceding three financial years on CSR in a given year, it can offset this excess amount against its CSR obligations in the following years. The specific details of how this excess spending can be carried forward and utilized in subsequent financial years will be prescribed by regulations.

Attachment of the Amendment to the Social Stock Exchange

This revision is in line with the goals that the Social Stock Exchange that is being proposed in India aims to accomplish. It gives businesses that surpass the 2% CSR expenditure limit that is stated in Section 135(5) of the Indian Companies Act 2013 the ability to trade or sell their excess CSR money to businesses who are unable to achieve their yearly CSR commitments.

Managing CSR expenditures that have not been spent

It has been decided that the proposed amendment to Section 135 of the Indian Companies

[23] Shubhangi Pathak, India: The Companies (Amendment) Bill 2020 – A Welcome Change To Business And Commerce?,Mondaq (5 May, 2020)

(Amendment) Act 2019 would not affect Subsection 6. It is required that any sum that has not been spent from corporate social responsibility activities that relate to ongoing projects must be transferred by the firm within thirty days of the end of the fiscal year to a designated account that is called the "Unspent CSR Account" in any bank that is scheduled to receive deposits. The sum in question must be put to use for corporate social responsibility (CSR) objectives within three fiscal years after the date of transfer. Should the corporation fail to comply with this requirement, it will be required to transfer the monies that have not been spent to a particular fund listed in Schedule VII within thirty days after the conclusion of the third fiscal year.

The consequence for failing to comply

According to the new sub-section 7 of Section 135: "If a company fails to comply with the regulations outlined in sub-section (5) or sub-section (6), it will incur a penalty equal to twice the required amount to be transferred to the specified Fund in Schedule VII or the Unspent CSR Account, whichever is lower, but not exceeding one crore rupees." This penalty will amount to a maximum of one crore rupees. In addition, any official of the firm who is found to be in default shall be liable to a penalty equal to one-tenth of the amount that is needed to be transferred to such a Fund or Account, or two lakh rupees, whichever amount is smaller. Initially, in accordance with Article 21 of The Companies (Amendment) Act 2019, a corporation that was found to have breached either sub-section (5) or sub-section (6) was subject to a fine that may range anywhere from fifty thousand rupees to twenty-five lakh rupees. Furthermore, executives of such firms might be subject to imprisonment for a period of up to three years, a fine ranging from fifty thousand to five lakh rupees, or both of these penalties. Now, according to the new sub-clause 7 of Section 135 of the Indian Companies Act 2013, the penalty for non-compliance is a fee that is equal to double the amount of money that has not been spent and is due to be transferred by the firm, with a maximum ceiling of one crore rupees. A penalty equal to one-tenth of the necessary transfer amount, with a maximum rate of two lakh rupees, will be imposed on any officer who is in default.

Committees with a CSR Focus

If a firm's corporate social responsibility (CSR) expenditure obligation is less than fifty lakh rupees, then the new sub-clause 9 states that the corporation is free from the need that it create a CSR Committee, which is stipulated in sub-section (1). Additionally, under these kinds of circumstances, the Board of Directors of the firm will take on the obligations that are ordinarily delegated to the CSR Committee in accordance with this section.

In essence, this rule recognises the different sizes of firms and the accompanying funds for corporate social responsibility each of them has. Those smaller businesses who have minimal funding for corporate social responsibility are spared the administrative effort of creating a separate committee, which enables their boards of directors to directly supervise and manage activities related to CSR. This modification is intended to simplify the process of complying with CSR regulations for smaller firms while still ensuring that their CSR responsibilities are successfully satisfied.

Trusts and Societies are still facing a great deal of uncertainty.
In the Indian Companies (CSR Policy) Rules 2020, one of the proposed amendments suggested that corporate social responsibility (CSR) activities should be carried out in one of three ways: directly by the company itself, through a company established under Section 8 of the Companies Act, or through entities established under Acts of Parliament or State legislatures. It is important to note that this suggestion meant that public charity trusts and organisations that were registered under the Act of 1860 would not be recognised as CSR implementing agency.

This amendment was essentially brought in to reduce the number of choices available for CSR implementation by concentrating on organisations that met certain legal structures recognised by the Companies Act or other laws. The purpose of the plan was to guarantee that corporate social responsibility activities are carried out via companies that have defined legal frameworks and regulatory control. This was accomplished by excluding public charity trusts and societies. The landscape of corporate social responsibility (CSR) implementation may be altered as a result of this change, which may result in an increase in the allocation of CSR monies to businesses and organisations that have created legal structures, as described in the proposed amendment.

In the Indian Companies Rules 2020, it is hoped that the alteration that has been recommended will not be implemented. After all, a great number of philanthropic, welfare, and developmental organisations, including a great number of Indian Corporate Foundations, are registered as trusts.

In the case of Meenakshi Textiles v. ROC, Tamil Nadu[24] The company, despite having a net profit exceeding 5 crores, attempted to evade its CSR obligations by misrepresenting its financial status twice, claiming losses. The Tribunal noted the company's failure to establish a CSR committee and consequently fulfill its CSR obligations. According to the Companies Act, the board is responsible for ensuring the publication of the CSR policy on the company's website and overseeing the expenditure of at least 2% of the average net profits from the preceding three financial years, calculated as per Section 198. When utilizing CSR funds, priority should be given to local areas near the company. Any reasons for not spending the allocated amount must be disclosed in the Director's report. Expenditure on CSR activities should be reported in the profit and loss statement as a separate note.

In the landmark case of CG Power Ltd. v Gujarat Urja Vikas and Ors.,[25] The Ministry of Environment and Forests issued a notification requiring companies to conduct CSR activities regardless of their profitability status. However, the Central Electricity Regulatory Commission stated that the Companies Act, 2013 already contained CSR regulations stipulating that companies needed to be profitable to engage in CSR initiatives.

Technicolor India (P) Ltd. Vs. Registrar of Companies[26] – A situation where a Company spent less than the threshold on C.S.R

The company fulfilled the profit criteria outlined in Section 135 of the Companies Act 2013 and established a CSR committee. However, its expenditure in the year 2017-2018, as per the company's policy, remained below the threshold specified in Section 135(5) of the Act.

The company provided an explanation for its expenditure in its report, but the court discovered inaccuracies in the amount spent on CSR and its associated details as provided by the director in the report. Consequently, the company had to submit an application to an NCLT located in Bangalore.

The application was allowed, and the company was told to revise its report and given the liberty to file for compounding under S.441 of the Companies act.

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[24] Meenakshi Textiles v ROC, Tamil Nadu 2019 SCC OnLine NCLAT 378
[25]Coastal Gujarat Power Ltd. v Gujarat Urja Vikas and ors 2017 SCC OnLine CERC 32
[26] Technicolor India (P) Ltd. Vs. Registrar of Companies 2020 (7) TMI 423

Billfinger Neo Structo Limited[27] – Criteria for C.S.R not fulfilled

The C.S.R provisions would not be applicable to the company where the three criteria under the Companies Act such as the net worth or turnover nor net profit are not considered fulfilled. In M.C. Mehta v. Union of India[28], this approach was reiterated- “If without degrading the environment or minimizing adverse effects thereupon by applying stringent safeguards, it is possible to carry on development activity applying the principles of sustainable development, in that eventuality, the development has to go on because one can’t lose sight of the need for development of industries, irrigation resources and power projects etc. including the need to improve employment opportunities and the generation of revenue. A balance is to be struck. The idea of sustainable development, that is, the balance between environment and development, had its influence on the judiciary in interpreting the provisions of law relating to the forest. Various dimensions of forest protection were examined by courts, and the case of T.N. Godavarman Thirumulkpad v. Union of India[29], is an illustration of the concept. In this case, the apex court made certain pronouncements, like – forest includes the area noted in the government records as forest, irrespective of ownership; running sawmills of any kind is a non-forest activity, all sawmills within a distance of 100km from the border of the state of Arunachal Pradesh are to be wound up; complete ban on the felling of trees in the tropical wet evergreen forests in Arunachal Pradesh is essential ‘owing to their significance to maintain ecological balance needed to preserve biodiversity’, felling of trees in other states except in accordance with working plans is suspended; each state government should constitute expert committees to identify forest areas, denuded forests and areas covered by plantation trees and to assess the sustainable capacity of the forests.

CHAPTER 4

CONCLUSION

CSR undoubtedly influences our companies, community, and other stakeholders. In spite of its difficulties, the various sustainability practices aim continued, positive effect. CSR policies must work as an integral, self-governing method whereby business would observe and make sure their observance to laws, moral standard and international rules and regulations.

CSR give different advantage to the business like boosting brand value, trust, and notoriety;

[27]Billfinger Neo Structo Limited 2019 SCC OnLine NCLT 108, CP No. 54/441/NCLT/MB/MAH/2018

[28] AIR 2004 SC 4016.

[29] AIR 1997 SC 1228.

new client acquisition and expansion of strong and long lasting associations with customers; improved capability to attract, encourage and keep the most talented employees; improved monetary performance and the capability to magnetize new resources and influences major stakeholders – like investors, business partner and policy makers.

To conclude, this study, it is addressed that CSR factors for enhancing financial development of any nation. In India, INFOSYS, HUL, Reliance Industries, TATA Group and Grasim Industries are playing a significant part to contribute a role of their considerable revenue to the stakeholders. No firms in this universe contribute towards the community without considering the goals of profit maximization. When organizations contribute an important role of their revenue towards the community, they also generate brand image.

To conclude, business can no longer function with the intention of profit maximization at the expense of the ecology, community, customers and workers. Organizations require to think how they can return to community, and this might assist them magnetize consumers and maintain their best employees. Customer happiness and employee retention are the key to all successful businesses, finally.

SUGGESTIONS

The company management must consider that CSR overtakes corporate giving, businesses or community relation or corporate philanthropy. It isn't mere the mere activity of offering employees the fundamental needs in the workplace. Nor it specifies business leaders who stand for by legal sanctions and system needs. Neither does CSR limit itself to "doing good businesses."

The firms have its brand image in the open market and hence it becomes significant for the employees in the companies and the organization as an entity to behave morally, unethical behavior could send negative wave to the common consumers.

A long haul point of view by associations, which envelops their responsibility to both inward and outside partners will be basic to the achievement of CSR and the capacity of organizations to convey on the objectives of their CSR technique Moreover, companies are needed to encourage their CSR ventures employees via catering training facilities, bonuses, and improved salary system in order to enhance their productivity, thus, to reduce their total cost of the CSR project as higher cost for CSR project remains the company with higher prices of the products to the customers. Therefore customer tends to change their preferences to other marketplaces.

CSR is relevant here since it not only helps in streamlining the policy for ethical behaviour but also helps in achieving a company's business objectives. As time goes, it is only natural for the business environment to grow more complex and CSR will help in tracking the interests of stakeholders as they grow more important. Therefore, a well-managed and executed CSR program within an organisation which has a defined business ethics will add social and environmental value to the company even while supporting its business objective of profit by reducing operation cost, creating strong ties with its stakeholders and customers alike.

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