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## Legal Dimensions of CSR and their Impact on Corporate Reputation

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### ABSTRACT

As the world continues to evolve, so does the business sector. However, this advancement has led to increasing environmental harm and social challenges. In response, the concept of Corporate Social Responsibility (CSR) emerged, emphasizing that companies are accountable not only to themselves but also to their stakeholders and society at large.

CSR has become a prominent topic in the modern business environment, sparking ongoing debates about the appropriate mechanisms for its regulation. Different countries adopt varying approaches to CSR—some treat it as a voluntary, self-regulated practice, others enforce it through ethical norms, while a few nations implement it through binding legislation. In most jurisdictions, CSR and sustainability reporting are mandated either through corporate law provisions or stock exchange listing requirements.

This study seeks to explore the connection between the execution of CSR initiatives and the development of a company's reputation. Additionally, it aims to analyze how corporate reputation influences the actions and attitudes of various stakeholder groups, including customers, employees, and investors. It will examine the earlier regulatory frameworks governing CSR and compare them with the more recent developments in this area. Finally, the paper will offer recommendations to address any existing challenges related to CSR implementation.

Keywords: CSR, Companies Act 2013, corporate reputation

### INTRODUCTION

In recent years, a growing number of companies around the globe have begun actively promoting their CSR initiatives. This shift is largely driven by increasing pressure from consumers, investors, and the general public, all of whom expect businesses to operate in a sustainable and ethically responsible manner. Today, the primary goal of CSR is to enhance the overall positive impact a company has on society and its stakeholders.

Many organizations are now embedding CSR policies, practices, and programs deeply into their core business operations and decision-making processes. Companies increasingly recognize that CSR is not merely an indirect cost but a strategic tool for safeguarding their reputation, building goodwill, fending off criticism, and strengthening their competitive edge in the market.

CSR is a principle that asserts the obligation of both private corporations and public organizations to contribute positively to society. It plays a dual role by not only reducing operational costs and mitigating risks but also by enhancing a company's brand image and overall reputation. CSR is often viewed as a unifying framework that brings together various efforts directed toward the social and economic advancement of communities.<sup>1</sup>

Recognizing the potential of integrating CSR into core business strategies—particularly in the context of a developing nation like India—this study aims to offer a comprehensive understanding of the CSR concept and trace its evolution within the Indian landscape. The research delves into the underlying motivations and the tangible benefits that Indian companies derive from engaging in CSR activities. It also examines the regulatory framework that governs CSR in India and provides an overview of real-world CSR practices implemented by Indian firms.<sup>2</sup>

To manage their CSR efforts effectively, numerous companies have established dedicated CSR departments or teams. These teams are responsible for developing policies, setting clear objectives, defining strategies, and allocating budgets for CSR initiatives. These initiatives are typically shaped by a broader social vision and are closely aligned with the organization's primary business objectives.<sup>3</sup>

Employees play a vital role in implementing CSR programs, acting as the driving force behind their success. These initiatives can cover a wide spectrum of focus areas, such as community upliftment, education, environmental conservation, healthcare, and the empowerment of women, among others.

<sup>1</sup> Dixit, Verma, and Priya, "Corporate social responsibility motives of Indian firms", JMM (2021)

<sup>2</sup> Leena. James, Sustainability of CSR In Indian Companies, International journal of Management, IT and Engineering ( 2017)

<sup>3</sup> Debansu Das, CSR in India: Legal Issues And Challenges, IJMMR (2015)

Given the growing recognition and significance of CSR, it has become increasingly important to have a legal framework governing these activities. The purpose of enacting CSR-related legislation is to formalize these efforts by assigning legal accountability and ensuring that corporate entities take responsibility for both governance and social contribution.

In India, CSR is regulated through specific laws that not only mandate but also encourage companies to engage in socially responsible practices. These regulations provide the legal structure within which CSR initiatives must operate, ensuring that such efforts are not voluntary acts alone, but also statutory obligations aimed at fostering sustainable and inclusive growth.

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## PROBLEM STATEMENT

In the contemporary business setting, CSR has evolved from being the voluntary philanthropic activities to a legally mandated responsibility in many jurisdiction, comprising India. With the enactment of Section 135 of the Companies Act, 2013, India became one of the first countries to make CSR a legal obligation for qualifying companies. This legal system needs enterprises to assign a portion of their profits to CSR initiatives and disclose their activities in a transparent manner. However, the mandatory nature of CSR has raised several questions regarding its implementation, compliance, and the genuine intent behind corporate initiatives. There is a growing concern that companies may approach CSR as a checkbox exercise to meet legal requirements rather than as a meaningful engagement with society.

At the same time, corporate reputation has become a critical asset, directly influencing stakeholder trust, consumer loyalty, and investor confidence. The way companies respond to legal CSR mandates significantly shapes public perception. While robust and transparent CSR practices can enhance a company's image and goodwill, non-compliance or superficial efforts may lead to reputational damage, regulatory scrutiny, and public criticism. This creates a complex dynamic where legal compliance must be balanced with authentic social engagement to build and sustain corporate reputation. Therefore, it is crucial to examine how the legal dimensions of CSR influence corporate behavior and public image, and whether these legal obligations translate into real societal impact or remain limited to formal compliance.

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## OBJECTIVES OF THE STUDY

- To examine the current legal system administering CSR activities in India focusing on statutory provisions, compliance mechanism, and enforcements.
- To assess the affect of mandatory CSR laws on corporate behavior and decision making in executing CSR initiatives.
- To analyze the effect of legal CSR compliance on the reputation of companies across different industries.
- To examine best practices and problems faced by firms in aligning their CSR initiatives

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## CSR and Their Impact on Corporate Reputation

CSR playing an important part in making an organization's reputation by showing its commitments to moral practices, social wellbeing, and environmental sustainability. When firms aggressively involve in meaningful CSR initiatives, they build trust and goodwill amongst clients, workers, investing parnters, and the wider community, which enhances their brand image and competitive advantage. Conversely, poor or insincere CSR efforts can lead to public skepticism, damage to reputation, and loss of stakeholder confidence. Thus, CSR not only helps businesses contribute positively to society but also serves as a strategic tool for maintaining and strengthening corporate reputation in today's socially conscious market.<sup>4</sup>

The Tata Group has made notable contributions to India's economic growth and social development through its wide-ranging business ventures and charitable efforts. It has been a trailblazer in India's industrialization, playing a crucial role in foundational projects such as the creation of Tata Steel and the establishment of the Indian Institute of Science in Bangalore. The group is also widely recognized for its philanthropic work, particularly through the Tata Trusts, which fund initiatives aimed at improving education, healthcare, rural livelihoods, and environmental sustainability throughout the country.

In 2021, Infosys allocated Rs. 325.30 crore towards various initiatives and transferred Rs. 49.50 crore to its Unspent CSR Accounts. The company's CSR activities focused on protecting national heritage, restoring historical sites, and promoting art and culture. Additionally, it worked on supporting marginalized communities and their rehabilitation, promoting environmental sustainability and ecological balance, and advancing education, healthcare, rural development, and skill enhancement programs.

Reliance Industries has significantly influenced the evolution of India's industrial sector and economic progress. Its impact spans from revolutionizing the textile industry in the 1970s to leading advancements in petrochemicals and refining. Furthermore, Reliance has expanded affordable telecommunications and digital connectivity in India via its subsidiary Reliance Jio, which transformed the market with disruptive innovations. The company's social responsibility efforts are channeled through the Reliance Foundation, which actively supports programs related to healthcare, education, rural empowerment, and disaster relief across the nation. CSR holds significant importance in Indian businesses, with companies such as the Tata Group exemplifying the value of responsible corporate conduct. Their CSR efforts support social progress, environmental protection, and sustainable development, positively impacting communities and individuals. These initiatives help ensure long-term sustainability while also providing a competitive

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<sup>4</sup> Shubham Sontakke, Impact of CSR on Brand Reputation, IJARST (2024)

edge. By adopting CSR practices, Indian companies can contribute meaningfully to society while fostering their own growth and success. The Tata Group's example serves as an inspiration, motivating other businesses to adopt CSR and work towards societal improvement.<sup>5</sup>

### CSR and Companies Act 2013

Schedule VII of the Companies Act, 2013 outlines several key areas for corporate social responsibility activities. These include efforts to eliminate hunger, poverty, and malnutrition, along with initiatives to promote healthcare, including preventive measures and sanitation. This also involves contributions to government programs like the Swachh Bharat Kosh, which aims to enhance sanitation and provide access to safe drinking water.

Another important focus is on advancing education, which covers not only general education but also special education and skill development programs. These initiatives particularly target vulnerable groups such as children, women, the elderly, persons with disabilities, and projects aimed at improving livelihoods. The schedule also emphasizes the promotion of gender equality and women's empowerment. It encourages establishing support facilities such as shelters and hostels for women and orphans, old age homes, day care centers for senior citizens, and initiatives aimed at addressing social and economic disparities faced by marginalized communities.<sup>6</sup>

Furthermore, environmental sustainability is a major component, including maintaining ecological balance, protecting wildlife and flora, promoting animal welfare, agroforestry, and conserving natural resources. Efforts are also directed towards preserving the quality of soil, air, and water. Contributions to government-led initiatives such as the Clean Ganga Fund, which focuses on the restoration and preservation of the Ganga River, are also highlighted under this schedule.

### Constitutional Invalidity of CSR

Section 135 of the Companies Act mandates that companies meeting specific criteria allocate a portion of their profits toward Corporate Social Responsibility (CSR) initiatives. However, corporations are not expected to solve all societal issues; their primary duty is to manage their business effectively, which can indirectly benefit society. Traditionally, the government has been viewed as the main entity responsible for ensuring the socio-economic welfare of the population. Nonetheless, government efforts in this area are often perceived as compulsory rather than voluntary. Some critics argue that the CSR mandate conflicts with constitutional rights, particularly those enshrined in Article 14 (right to equality) and Article 19(1)(g) (right to practice any profession or carry on any business) of the Indian Constitution.<sup>7</sup>

#### Section 135 and Its Potential Violation of Article 14

Article 14 of the Indian Constitution guarantees every citizen equality before the law and equal protection under the law. However, the requirement to carry out CSR activities under Section 135 applies only to companies, excluding other business entities such as Limited Liability Partnerships (LLPs) or partnerships, even if they exceed the specified thresholds for net worth or profit. Additionally, a company that has posted profits in the last three financial years but still carries forward losses from prior periods is still obligated to spend on CSR. Similarly, companies experiencing losses are also required to comply with the CSR provisions just like profit-making companies, which raises questions about fair and equal treatment under the law.

#### Section 135 and Its Potential Violation of Article 19(1)(g)

Article 19(1)(g) grants citizens the right to freely practice any trade, business, or profession. Section 135 imposes a restriction on this freedom by mandating companies to allocate funds for CSR activities, funds that could otherwise be reinvested in the business or distributed as dividends to shareholders. Critics argue that this provision effectively transfers certain governmental responsibilities—such as providing healthcare, food, and education—to private companies, thereby infringing on the constitutional right to freely conduct business.

In *Meenakshi Textiles v ROC, Tamil Nadu*<sup>8</sup> case The company was instructed to fulfill its CSR obligations as it reported a net profit exceeding Rs 5 crores. However, it attempted to show a negative profit figure by deducting losses twice. The Tribunal, in its ruling, stated that the appellant company was accountable for failing to establish a CSR committee and consequently not meeting its CSR responsibilities. According to the Companies Act, the board's duties include ensuring that the company's CSR policy is published on its website and that the company allocates at least 2% of the average net profits from the three immediately preceding financial years—calculated according to Section 198—for CSR activities. When deploying CSR funds, priority should be given to projects in areas close to the company's operations. Any reasons for not utilizing the allocated CSR amount must be disclosed in the Directors' report. Additionally, the expenditures on CSR initiatives should be transparently reported as a separate note in the company's profit and loss statement.

In the new instance of *Technicolor India (P.) Ltd. v. Register Of Companies*<sup>9</sup> In a recent case, the company met the net profit threshold specified under Section 135 of the Companies Act, 2013, established a CSR committee, and allocated funds towards its CSR activities in line with its CSR policy for the financial year 2017–18. However, the actual expenditure was less than the mandatory amount prescribed under Section 135(5). The shortfall was explained in the Director's Report, as required. Later, it was found that the report contained inaccuracies regarding the CSR expenditure and related

<sup>5</sup> Parvat. R Patel, CSR in India – A Path To Achieve Sustainable Development Goal, IJCRT, Volume 8, Issue 12 Dec 2020

<sup>6</sup> Vidhyabharathi, Corporate social responsibility reporting and disclosure requirements under the companies act, 2013 IJL (2024)

<sup>7</sup> Akanksha Junde, Legislated Corporate Social Responsibility (CSR) in India <https://academic.oup.com/slr/article-abstract/43/2/170/5841990>

<sup>8</sup> 2019 SCC NCLAT 378

<sup>9</sup> 2020 (7) TMI 423

disclosures. In response, the company approached the NCLT in Bangalore, seeking permission to revise the Director's Report. The Tribunal approved the request, allowing the company to proceed with an application for compounding of the offense under Section 441 of the Act.

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## Conclusion and suggestions

CSR has become a cornerstone of business operations in India, particularly as businesses increasingly recognize the importance of aligning their activities with societal and environmental goals. Indian companies are now required by law to allocate a percentage of their profits towards CSR activities under the Companies Act of 2013, which mandates CSR compliance for companies meeting certain thresholds of turnover and profit. This legal framework has had a profound impact on how businesses view their role in society, pushing them towards more sustainable and socially responsible practices.

The businesses in India that focus on CSR often experience a competitive advantage, particularly in attracting top talent. Employees today are increasingly seeking workplaces that align with their values, and companies with strong CSR programs are viewed more favorably. Moreover, consumers are also becoming more conscientious about the ethical practices of the brands they support. This shift in consumer and employee attitudes means that companies with a strong CSR track record often enjoy increased market share and a loyal customer base, enhancing their overall financial performance.

CSR in India has proven to be an essential driver of both social good and business success. The legal framework mandating CSR activities has encouraged businesses to adopt a more ethical and sustainable approach to their operations. This, in turn, has a positive impact on their reputation, making CSR not just a regulatory requirement but a strategic tool for fostering long-term business growth and maintaining a competitive edge in an increasingly socially conscious market. As CSR continues to evolve, companies that invest in meaningful initiatives will likely see a greater return on their investment in both financial and reputational terms.

The companies must make sure that CSR initiatives are incorporated into their organizational culture. Employee engagement in CSR programs is crucial, as it fosters a sense of purpose and belonging within the workforce. Employees who are involved in CSR activities are more likely to feel proud of their company, which can lead to higher job satisfaction and retention. Encouraging employees to contribute ideas or volunteer in CSR projects also strengthens internal cohesion and enhances the overall corporate culture. By embedding CSR into every level of the organization, businesses can ensure that their reputation as socially responsible entities is authentic and deeply rooted in their operations.

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