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Corporate Social Responsibility and Corporate Fraud: An Analytical Study

Khushi Sirohi , Shreyansh Raj

Bennett University

1. Introduction

Companies and industries play a significant role in the economic development of a country. They contribute to national growth by producing goods and services, creating employment opportunities and supporting industrial development. To ensure that companies function responsibly, corporate governance provides a framework of rules, procedures and practices through which their activities are directed and supervised. It promotes transparency, accountability, fairness and ethical conduct while protecting the interests of shareholders and other stakeholders.

In recent years, globalisation, increased foreign investment and several corporate scandals have highlighted the importance of effective corporate governance. A company's responsibility should not be limited to earning profits. It must also ensure that wealth is generated through lawful and ethical means while considering its responsibilities towards employees, investors, consumers and society.

Corporate Social Responsibility (CSR) has consequently become an important part of responsible corporate functioning. It refers to the contribution made by businesses towards society beyond their basic legal and commercial responsibilities. CSR involves initiatives aimed at improving social conditions, protecting the environment and supporting the economic development of communities.

The World Business Council for Sustainable Development describes CSR as the continuing commitment of businesses to act ethically and contribute to economic development while improving the quality of life of employees, their families and society. Former President of India, Dr. A.P.J. Abdul Kalam, also highlighted the importance of CSR in promoting sustainable businesses, creating opportunities and developing stronger relationships with stakeholders.

Corporate governance and CSR are closely connected because both encourage responsible business behaviour and sustainable development. However, the existence of CSR policies and legal provisions does not always ensure that their objectives are achieved. In certain situations, companies may misuse CSR activities or funds for fraudulent purposes. This makes it necessary to examine the relationship between CSR and corporate fraud in India, particularly the shortcomings in implementation, monitoring and accountability.

1.1 Significance of the Study

Corporate Social Responsibility has developed into an important responsibility of businesses towards the society in which they operate. Apart from supporting social welfare, CSR can also improve a company's public image, strengthen customer confidence, attract investors and create a positive brand identity. It therefore has the potential to benefit both businesses and society.

For CSR to achieve its intended purpose, companies must adopt clear and effective policies and ensure that their activities produce meaningful results. However, there are concerns that some companies may use CSR initiatives to conceal financial irregularities, divert funds or support activities that do not genuinely serve public welfare.

India has introduced mandatory CSR expenditure for certain companies under the Companies Act, 2013. The objective is to encourage corporate participation in social development and make businesses contribute towards nation-building. However, making expenditure compulsory is not sufficient unless the utilisation of funds is properly supervised.

CSR funds are intended for activities that benefit society. Their diversion or misuse weakens public confidence and defeats the purpose for which the legal framework was introduced.

Therefore, transparency in financial records, proper disclosures, effective supervision and responsible corporate governance are essential to prevent fraudulent practices.

This study is significant because it examines the possibility of fraud in CSR activities and the effectiveness of existing mechanisms in preventing such misuse. It also highlights the need to strengthen corporate accountability and ensure that CSR expenditure reaches its intended beneficiaries.

1.2 Need of the Study

Companies are important participants in the development of a nation and should contribute towards social welfare rather than focusing exclusively on financial returns. CSR enables businesses to support areas such as education, healthcare, environmental protection, poverty reduction and community development. Through these activities, companies recognise society as an important stakeholder in their operations.

Despite the objectives behind CSR, concerns have emerged regarding the misuse of funds and fraudulent activities carried out in its name. Although the Companies Act, 2013 provides a legal framework for CSR expenditure, its success depends on effective implementation, monitoring and accountability. Companies must ensure that the funds allocated for social initiatives are not diverted for private gain or unauthorised purposes.

The study is therefore required to understand the different forms of fraudulent practices associated with CSR in India and identify weaknesses in the existing regulatory framework. It also examines how corporate governance, monitoring systems and financial disclosures can help prevent such practices. The ultimate objective is to suggest measures that promote transparency and ensure the proper utilisation of CSR funds for social welfare and sustainable development.

2. CORPORATE SOCIAL RESPONSIBILITY: NATIONAL PERSPECTIVE

Corporate Social Responsibility has existed in Indian society in different forms for centuries. Although the present understanding of CSR is connected with corporate policies and legal obligations, its basic principles can be traced to traditional practices of charity, community service and social welfare.

In India, CSR seeks to encourage inclusive development by bringing social, environmental and economic considerations into business activities. Over time, the concept has moved from voluntary charitable contributions towards a more organised system of responsible business conduct.

The Ministry of Corporate Affairs introduced the Voluntary Guidelines on Corporate Social Responsibility in 2009. These were subsequently developed into the National Voluntary Guidelines in 2011 to encourage businesses to follow responsible and ethical practices.

2.1 Concept of CSR During the Pre-Independence Period

The foundations of CSR in India can be found in ancient traditions that encouraged rulers, wealthy individuals and business communities to contribute towards public welfare.

During the Mauryan period, rulers such as Chandragupta Maurya and Ashoka gave importance to public welfare, the protection of disadvantaged communities and the overall development of society. Kautilya's *Arthashastra* also emphasised that the welfare of the people should remain a major concern of those in authority.

Ancient Indian religious and philosophical traditions similarly promoted ethical behaviour and social responsibility. The *Manusmriti* stressed that wealth should be acquired through lawful and righteous means. The principle of *Sarva Loka Hitam* reflected the idea of promoting the welfare of all. Islamic traditions, including Zakah and Sadaqah, also encouraged charity and financial support for people in need.

During the early stages of industrial development, several wealthy business families supported society by funding educational institutions, healthcare facilities, religious institutions and relief activities. The Tata Group, founded by Jamsetji Tata in 1868, is a notable example of early corporate philanthropy in India.

Mahatma Gandhi further developed the idea of social responsibility through his concept of Trusteeship. According to this approach, wealthy industrialists should regard their wealth as something held in trust for society and use a portion of it for the benefit of disadvantaged sections.

Thus, CSR before independence was largely based on philanthropy, charity, religious values and the belief that wealth should also serve the wider community.

2.2 Corporate Social Responsibility After Independence

Following independence in 1947, India faced several social and economic difficulties, including poverty, unemployment and inadequate access to healthcare and education. During the initial years, the government took the leading role in addressing these challenges, while the contribution of private businesses towards social development remained relatively limited.

The situation gradually changed after the economic liberalisation reforms of 1991. The expansion of the private sector, increased business activity and growing economic inequalities encouraged companies to take a more active role in social development. The development of CSR in India can be understood through the following stages:

Period	Major CSR Development
1850–1914	Social contributions and charitable activities by wealthy business families
1914–1947	Support for social welfare initiatives and the freedom movement

Period	Major CSR Development
1947–1960	Corporate support for government-led development programmes
1960–1990	Growth of charitable trusts and organised social initiatives
1991–2013	Expansion of CSR through NGOs, trusts and public-private partnerships
2013 onwards	Introduction of mandatory CSR expenditure under the Companies Act, 2013

2.3 National Voluntary Guidelines (NVGs)

In 2011, the Ministry of Corporate Affairs introduced the National Voluntary Guidelines to encourage businesses to follow responsible and sustainable practices. These guidelines were revised in 2019 and developed into the National Guidelines on Responsible Business Conduct (NGRBC).

The guidelines are based on nine major principles:

1. Businesses should maintain ethical standards, transparency and accountability in their operations.
2. Products and services should be developed and delivered in a safe and sustainable manner.
3. Companies should protect employees' rights, welfare and working conditions.
4. The interests of all stakeholders should be recognised and respected.
5. Businesses should protect and promote human rights.
6. Companies should take steps to protect the environment and encourage sustainable development.
7. Businesses should act transparently when participating in or influencing public policy.
8. Corporate activities should contribute towards inclusive growth and equal opportunities.
9. Consumers should be treated fairly and provided with products and services that offer value.

These principles encourage businesses to consider their social and environmental responsibilities alongside their financial objectives.

4. CORPORATE SOCIAL RESPONSIBILITY UNDER THE COMPANIES ACT, 2013

The Companies Act, 2013 introduced Section 135, which established a statutory framework for CSR expenditure by companies meeting specified financial conditions. India became the first country to introduce a legal requirement for CSR spending.

Under Section 135, the CSR provisions apply to companies that satisfy any of the following conditions during the immediately preceding financial year:

- Net worth of ₹500 crore or more.
- Turnover of ₹1,000 crore or more.
- Net profit of ₹5 crore or more.

Companies covered by these provisions are required to spend at least 2% of their average net profits calculated for the three immediately preceding financial years on eligible CSR activities.

4.1 CSR Committee and Its Functions

Companies covered under Section 135 are generally required to constitute a CSR Committee of the Board, subject to the applicable statutory requirements.

The committee performs the following important functions:

1. It prepares and recommends the CSR policy for approval by the Board.
2. It suggests the amount that should be spent on CSR activities.
3. It monitors the implementation of CSR projects and policies.

The Board of Directors is responsible for approving the CSR policy, ensuring that it is implemented and making the required disclosures regarding CSR activities in the company's annual report.

4.2 CSR Committee in the Case of Foreign Companies

Foreign companies falling within the scope of the CSR provisions are also required to comply with the applicable requirements relating to a CSR Committee.

The committee must consist of at least two persons, including one individual residing in India who is authorised to represent the foreign company. Its role includes recommending CSR-related measures and ensuring that an appropriate monitoring system is established for the implementation of CSR activities.

4.3 Companies Amendment Act, 2019

The Companies Amendment Act, 2019 strengthened the provisions relating to amounts that companies fail to spend on CSR activities. The amendment introduced specific requirements to ensure that unspent CSR funds are dealt with appropriately.

The important requirements include:

- Where the unspent amount relates to an ongoing project, it must be transferred to an Unspent CSR Account within 30 days from the end of the financial year.
- The amount transferred to this account must be utilised within the following three financial years.
- If the amount remains unspent after this period, it must be transferred to a fund specified in Schedule VII.
- Where the unspent amount does not relate to an ongoing project, it must be transferred to a Schedule VII fund within six months from the end of the financial year.

These provisions aim to prevent companies from retaining unspent CSR amounts without justification and strengthen accountability in the use of CSR funds.

4.4 CSR Activities Under Schedule VII

Schedule VII of the Companies Act, 2013 identifies the activities that may be undertaken by companies to fulfil their CSR responsibilities. These activities cover several areas of public welfare and social development, including:

1. Removal of hunger, poverty and malnutrition.
2. Promotion of healthcare, sanitation and access to safe drinking water.
3. Improvement of education and employment-related skills.
4. Promotion of gender equality and women's empowerment.
5. Protection of the environment and maintenance of ecological balance.
6. Preservation of national heritage, art and culture.
7. Welfare measures for armed forces veterans and their families.
8. Promotion of rural and nationally recognised sports.
9. Contributions towards government relief and welfare funds.
10. Support for scientific research and rural development.
11. Development and improvement of slum areas.
12. Disaster management, relief and rehabilitation.

These activities provide companies with different ways to contribute towards the welfare and development of society.

4.5 Implementation of CSR Activities

Companies may carry out CSR projects directly or through eligible implementing agencies. These agencies may include:

- Section 8 companies.
- Registered public trusts and societies.
- Government-established institutions and organisations.

- Other organisations that satisfy the prescribed eligibility, registration and experience requirements.

Companies may also work together with other businesses to implement CSR projects.

Regardless of the method adopted, proper supervision, documentation and reporting are important to ensure that the funds are used for the purposes for which they were allocated.

4.6 CSR During the COVID-19 Pandemic

The COVID-19 pandemic created major difficulties for individuals, businesses and public institutions across India. During this period, CSR initiatives became an important source of support for healthcare facilities, food distribution, sanitation and assistance to vulnerable communities.

In March 2020, the Ministry of Corporate Affairs clarified that expenditure on eligible COVID-19 relief activities could be treated as CSR expenditure under Schedule VII of the Companies Act, 2013.

Several companies contributed towards healthcare infrastructure, preventive healthcare, hunger relief and disaster management. Contributions were also made towards the PM CARES Fund.

However, the large scale of CSR expenditure during the pandemic raised questions about the selection of implementing agencies, monitoring of financial contributions and assessment of the actual benefits delivered. Concerns also arose regarding the possibility of companies interpreting certain activities in a manner that could indirectly benefit their business interests.

The pandemic therefore demonstrated that CSR expenditure must be accompanied by proper documentation, financial transparency and effective monitoring.

4.7 Accounting Treatment of CSR Expenses

The accounting treatment of CSR expenditure depends on the nature of the activity and the manner in which it is undertaken by the company.

1. **Direct expenditure by the company:** Where the company carries out CSR activities itself, the expenditure may be recorded as revenue or capital expenditure, depending on whether an asset is created.
2. **Expenditure through trusts or NGOs:** Amounts contributed towards eligible trusts or non-governmental organisations are generally recorded as expenditure in the company's profit and loss account.
3. **Supply of goods and services:** Where a company provides its own products or services for CSR purposes, the accounting treatment is determined according to the applicable accounting principles.

CSR expenditure does not automatically qualify for a general tax exemption. However, certain contributions and activities may receive tax benefits where they satisfy the relevant provisions of the Income Tax Act, 1961.

4.8 Notable CSR Initiatives by Indian Companies

Several Indian companies have introduced initiatives to address social and environmental concerns. Some examples include:

- **Ashok Leyland:** Supports educational and recreational activities for underprivileged and differently abled children and conducts health awareness programmes.
- **Axis Bank:** Works towards improving children's education and providing skill development opportunities to unemployed youth.
- **Bharat Petroleum Corporation:** Undertakes projects relating to rainwater harvesting, rural healthcare and village development.
- **Hindalco Industries:** Supports access to drinking water, education, healthcare and women's empowerment.
- **Indian Oil Corporation:** Contributes towards heritage preservation, sports, education and healthcare.
- **Infosys:** Supports scientific research, healthcare, education and rural development initiatives.
- **Mahindra & Mahindra:** Runs the Nanhi Kali programme for the education of underprivileged girls and supports vocational training.
- **ONGC:** Undertakes activities relating to rural healthcare, environmental protection, education and women's empowerment.
- **Tata Consultancy Services:** Supports adult literacy, skill development, healthcare and agricultural development.
- **Tata Steel:** Focuses on rural development, healthcare, education and improving living conditions in rural communities.

These examples illustrate the different ways in which corporate resources can be directed towards social development and public welfare.

5. CORPORATE FRAUD

5.1 Meaning and Nature of Corporate Fraud

Corporate fraud refers to dishonest, unlawful or deceptive conduct by a company or individuals connected with its management and operations, generally for financial or personal benefit. It may involve activities such as bribery, corruption, embezzlement, money laundering, forgery and manipulation of financial statements.

Corporate fraud is commonly treated as a form of white-collar crime. It can be difficult to identify because fraudulent activities may be concealed through complicated financial arrangements, misleading documents and improper accounting practices. For example, a company may present false financial figures, conceal its liabilities, exaggerate profits or withhold important information to create a misleading impression of its financial position.

The Oxford Dictionary describes fraud as the use of false representations to obtain an unfair advantage. In the corporate sector, such conduct can cause financial harm to investors, employees, creditors and other stakeholders. It can also weaken public confidence in companies and financial institutions.

With the expansion of technology, trade and commercial activities, corporate fraud has become a concern across the world. India has also experienced several major corporate scandals, demonstrating the need for ethical management, stronger governance practices and effective regulatory supervision.

5.2 Corporate Fraud Under Indian Law

Indian law addresses fraudulent conduct through different statutory provisions. The Indian Penal Code, 1860, recognised fraudulent conduct as an act carried out with an intention to defraud. Similarly, the Indian Contract Act, 1872, recognises fraud as a factor that may affect the validity of a contract.

The Companies Act, 1956 did not contain a detailed and comprehensive definition of corporate fraud. However, Section 540 dealt with certain fraudulent activities, including fraudulently inducing individuals to invest in company shares and fraudulent preferences during winding-up proceedings.

5.3 Corporate Fraud Under the Companies Act, 2013

The Companies Act, 2013 introduced a more comprehensive provision dealing with fraud through Section 447. The section covers an act, omission, concealment of facts or abuse of position carried out with the intention of deceiving another person, obtaining an undue advantage or causing harm to a company, its shareholders, creditors or any other person.

The major elements of fraud under Section 447 include:

1. The conduct must relate to the affairs of a company.
2. Fraud may involve an act, an omission, concealment of information or misuse of a person's position.
3. There must be an intention to deceive, obtain an unfair advantage or cause harm.
4. Proof of actual wrongful gain or wrongful loss is not necessary to establish the intention behind the fraudulent conduct.

Section 448 deals with false statements and deliberate omissions of material information in documents, financial statements, reports and returns required under the Companies Act. Such conduct attracts liability under Section 447.

Section 447 also provides for imprisonment and monetary penalties, depending upon the circumstances and amount involved in the fraud. These provisions aim to discourage dishonest corporate conduct and protect the interests of stakeholders.

5.4 Types of Corporate Fraud

Corporate fraud may occur in different forms depending on the nature of the misconduct and the individuals involved. Some major categories are discussed below.

6. Financial Misappropriation

Financial misappropriation involves the improper handling or use of a company's financial resources. It may include:

- Manipulating financial statements and accounting records.
- Using company funds for unauthorised purposes.
- Providing misleading financial information to investors.
- Artificially increasing share prices to create false market confidence.

7. Misappropriation of Assets

This form of fraud involves the unauthorised use, transfer or theft of assets belonging to a company. Examples include:

- Taking company money or physical property for personal use.
- Improper use of intellectual property.
- Creating false invoices or payments to obtain personal benefits.

8. Corruption

Corruption involves the misuse of authority or influence to obtain an unlawful advantage. It may take the form of:

- Giving or accepting illegal payments.
- Offering bribes to public or private officials.
- Using official authority or political influence for personal benefit.

Other forms of corporate fraud include employee fraud, vendor fraud, customer fraud, procurement fraud, payroll manipulation, investment scams and falsification of financial records.

9. MAJOR CORPORATE FRAUDS IN INDIA

9.1 Haridas Mundhra Scam (1957)

The Haridas Mundhra Scam is regarded as one of the earliest major financial scandals in independent India. Haridas Mundhra, an industrialist and stockbroker, was involved in manipulating shares and influencing the Life Insurance Corporation (LIC) to invest approximately ₹1.26 crore in six financially troubled companies without following the proper investment procedures.

The issue was brought to the attention of Parliament by Feroze Gandhi. Following the controversy, Justice M.C. Chagla was appointed to conduct an inquiry into the matter. The investigation brought several financial irregularities to light and resulted in the resignation of Finance Minister T.T. Krishnamachari. Mundhra was later convicted and sentenced to imprisonment.

The incident exposed weaknesses in financial supervision and highlighted the importance of transparency, accountability and proper investment practices.

9.2 Satyam Scam (2009)

The Satyam scam is considered one of the most significant corporate accounting frauds in India. Satyam Computer Services, established by B. Ramalinga Raju, was once recognised as a leading information technology company.

The company's financial statements were manipulated to present a false picture of its financial health. Profits and assets were overstated, and fictitious cash balances were shown in the accounts. In January 2009, Ramalinga Raju admitted to financial irregularities involving approximately ₹7,800 crore.

The disclosure severely affected investor confidence and exposed serious shortcomings in auditing and corporate governance. Following the incident, the government intervened, reconstituted the company's Board of Directors and initiated investigations.

Some important developments associated with the strengthening of corporate regulation following the scam include:

- The Companies Act, 2013 strengthened the legal framework relating to corporate fraud and accountability.
- Requirements relating to auditor rotation were introduced.
- Greater responsibilities were placed on auditors and independent directors.
- SEBI strengthened disclosure and compliance requirements through the Listing Obligations and Disclosure Requirements Regulations, 2015.
- The Serious Fraud Investigation Office (SFIO) received statutory recognition under the Companies Act, 2013.

The Satyam scam demonstrated how weaknesses in financial reporting, auditing and board supervision can result in serious corporate misconduct.

9.3 Ketan Parekh Scam

Ketan Parekh, popularly known as the 'Bombay Bull', was associated with stock market manipulation during the period 1999–2000.

He artificially influenced the share prices of selected companies, particularly those operating in the Information, Communication and Entertainment (ICE) sector. One of the methods associated with this activity was known as 'Pump and Dump'. Under this method, the prices of selected shares are artificially increased before the shares are sold at higher prices.

Parekh also used banking facilities and financial institutions to obtain funds for stock market transactions. His activities resulted in substantial financial losses and affected confidence in the securities market.

The incident demonstrated the importance of strict market regulation, transparent financial dealings and continuous supervision of stock market transactions.

10. IMPORTANT CASE LAWS RELATING TO FRAUD

10.1 Sunair Hotels Ltd. v. Union of India (2017)

This case concerned the legality of an investigation ordered into the affairs of a company under Section 212 of the Companies Act, 2013. The Delhi High Court upheld the investigation, taking into account the allegations of fraud and the wider public interest involved.

10.2 Vikas Agarwal v. Serious Fraud Investigation Office (2019)

The matter involved allegations of criminal conspiracy and fraudulent conduct connected with illegal mining and financial transactions. The Court considered the scope of Section 447 of the Companies Act, 2013 and the liability of individuals allegedly involved in corporate fraud.

10.3 Doraisamy v. State (2007)

In this case, the Madras High Court considered conduct involving the misuse of a person's position in company affairs. The case highlighted that abusing a position with the intention of deceiving others, securing an undue advantage or causing harm to a company or its stakeholders may amount to fraudulent conduct.

10.4 Gaurav Kumar v. Serious Fraud Investigation Office (2019)

The Delhi High Court examined issues concerning false statements and the concealment of material information under Sections 447 and 448 of the Companies Act, 2013. The matter emphasised the importance of providing accurate information in company documents and disclosures.

10.5 Vimla v. State (Government of NCT of Delhi) (1962)

The case concerned the use of a minor daughter's name in vehicle registration and insurance documents. The Supreme Court considered the distinction between deceit and criminal fraud. It observed that deceit, by itself, does not necessarily establish criminal fraud unless the essential elements of the relevant offence are also present.

11. CONCLUSION

Corporate fraud is a serious concern for the Indian corporate sector. The growth of businesses, financial markets and technological activities has created new opportunities for commercial development, but it has also increased the possibility of dishonest practices.

Incidents such as the Haridas Mundhra Scam, Satyam Scam and Ketan Parekh Scam demonstrate the financial and social consequences of corporate misconduct.

Preventing such activities requires more than the existence of legal provisions. Companies must establish strong internal controls, maintain independent supervision, conduct regular audits and ensure that financial information is disclosed accurately. Independent directors and audit committees also play an important role in identifying irregularities and improving corporate accountability.

Effective enforcement of the law, combined with ethical management and transparent business practices, can help reduce the risk of corporate fraud. Companies must therefore develop systems that identify suspicious activities at an early stage and ensure that those responsible are held accountable.