



# TIJSBM

*Techno India Journal of the Strategic Business Mind*

International Peer-Reviewed Open Access Journal

## ARTICLE TITLE

### **Corporate Social Responsibility under Corporate Law: A Critical Analysis of the Legal Framework in India**

## ARTICLE TYPE

|                       |                  |            |                  |              |                     |
|-----------------------|------------------|------------|------------------|--------------|---------------------|
| <b>Review Article</b> | Research Article | Case Study | Conceptual Paper | Policy Paper | Short Communication |
|-----------------------|------------------|------------|------------------|--------------|---------------------|

## AUTHOR(S) DETAILS

| # | Full Name               | Affiliation & Country  | Email Address           | ORCID iD            | Role          |
|---|-------------------------|--|-------------------------|---------------------|---------------|
| 1 | Shibashis Mukhopadhaya* | Department of Legal Science, Techno India University, Kolkata, India | shibashis2403@gmail.com | 0000-0000-0000-0000 | Corresponding |

## CORRESPONDING AUTHOR

Name: Shibashis Mukhopadhaya | Postal Address: Department of Legal Science, Techno India University, Full Address - EM-4, EM-4/1, EM Block, Sector V, Bidhannagar, Kolkata,, Postcode - 700091, Country - India

Tel: +91-8910981057 | Email: [shibashis2403@gmail.com](mailto:shibashis2403@gmail.com)

# Corporate Social Responsibility under Corporate Law: A Critical Analysis of the Legal Framework in India

---

## ABSTRACT

*This is a comprehensive review on Corporate Social Responsibility (CSR), which brings the reader through Shareholder Theory, its theoretical foundation and history Stakeholder Theory, Triple Bottom Line Theory, and the Pyramid Theory of Carroll, and lastly, ends up with the compulsory element of Companies Act 2013, Section 135 and obliges companies to establish. 2% of their profits are distributed asides to spend on activities in relation to Schedule VII of the Companies. The problems associated with education, health and the environment, and Act 2013 such as these. its enforcement, including the necessity to gauge its effectiveness and the push by consumers to act morally and the associated matters in enacting it.*

## KEYWORDS

Corporate & Business Law • CSR • Corporate Social Responsibility • Companies Act • Business Ethics • Corporate Governance

---

## Introduction

CSR is an acronym that stands for Corporate Social Responsibility, which is defined as a business approach that integrates social, environmental, and ethical issues into its operations and relationships with its stakeholders.

## Core Definition

It is an approach that focuses on voluntary efforts that exceed legal obligations to make positive social and environmental impacts, along with being profitable. According to the European Commission, CSR is defined as companies taking responsibility for their social impact by being transparent and ethical.

## Key Principles

CSR includes ethical issues (fair treatment of stakeholders), environmental sustainability (reducing negative impacts like carbon footprint), philanthropy (giving back to the community), and economic responsibility (being profitable while contributing to social good), which is different from philanthropy because of its connection to core business.

CSR, or Corporate Social Responsibility, has come a long way from its humble beginnings as philanthropy in the early days of industrialization. Today, CSR has developed into a full-fledged framework for conducting business in a socially responsible manner.

## Global Evolution of CSR

The concept of CSR has its roots in the Industrial Revolution of the late 1800s and early 1900s. Industrialists like Andrew Carnegie contributed to CSR in their philanthropic efforts towards the welfare of workers and the poor. The term CSR was coined in 1953 by Howard Bowen in his book *Social Responsibilities of the Businessman*. The term was coined as a responsibility of businesses towards society.

The major milestones in the evolution of CSR as we know it today are the 'social contract' concept of the US Committee for Economic Development in the 1970s. The 1990s saw the development of the

CSR Pyramid by Archie Carroll and the UN Global Compact and Dow Jones Sustainability Indices. The last decade saw the incorporation of sustainability through the UN SDGs and the Paris Agreement. Indian Perspective The Indian CSR has its origin in ancient texts such as Vedas and Gandhi's trusteeship theory, where businesses are trustees to society. In the post-independence period (1950s-80s), it remained voluntary and related to the concept of a "mixed economy" through policies such as national guidelines issued in 1977. The turning point came with the introduction of the Companies Act 2013 (Section 135), which came into effect from 2014, making India the first country to enforce a 2% spending requirement from its average net profits on CSR by qualifying companies. The areas covered are poverty reduction, education, health, and environment. The reporting is monitored by the MCA. By 2026, compliance has improved, aligning with global SDGs while addressing Indian issues.

## **Theoretical Foundations of CSR**

### **Shareholder Theory – Milton Friedman**

According to the Shareholder Theory that was developed by Milton Friedman, the sole social responsibility of the business is to maximize profits to the shareholders without violating any established legal and ethical standards. Friedman proposed the theory in his essay titled *The Social Responsibility of Business Is to Increase Its Profits* (1970) that was published in *The New York Times*. The theory dismisses CSR as being tax without representation.

### **Core Tenets**

According to the theory, executives act on behalf of the shareholders and therefore, any amount spent on social issues equates to expenditure on behalf of shareholders. Executives are only under the obligation to make profits as much as possible without being involved in deception or breaking of the law. The theory encourages liberal capitalism. The theory has been criticized on account of its failure to consider such stakeholders as employees, communities, and environment. The theory has become useless because the new perspectives like the Companies Act 2013 of India have focused on CSR.

### **Stakeholder Theory – R. Edward Freeman**

R. Edward Freeman's Stakeholder Theory posits that companies must add value to all those who have an interest in them if they are to succeed. Freeman's theory, which was published in *"Strategic Management: A Stakeholder Approach"* in 1984, is at odds with Milton Friedman's Shareholder Theory.

### **Basic Principles**

According to Freeman, stakeholders are those groups or individuals that an organization affects or is affected by, which includes employees, customers, suppliers, societies, financiers, and even competitors. Managers must balance competing interests of various groups or individuals with ethical considerations by looking at the organization as a web of relationships.

### **Difference with Shareholder Theory**

Unlike Friedman's theory, which supports that companies should make profits for shareholders while still being legal, Stakeholder Theory goes against that by rejecting profit as the main objective of companies. It supports sustainability, employees, and societies as key drivers of success.

## **Triple Bottom Line – John Elkington**

Triple Bottom Line (TBL) (originally coined Elkington in 1994) is not just a measurement of business success in terms of profit which is often used in business but instead, extends to include social equity or people and environmental health or planet, as well as economic viability or profit.

### **Core Framework**

TBL is a concept that is suggested by Elkington in his company SustainAbility as a way of breaking free of the traditional accounting practices, which suggests having three bottom lines which are mutually dependent on each other, which include: People, Planet and Profit.

### **Relevance to CSR**

Triple Bottom Line also holds the Stakeholder Theory in that it introduces the idea of equilibrium between diverse influences, so the traditional shareholder value-only strategy suggested by Friedman is opposed. Elkington has opined that TBL could be a zombie concept with no substantial alterations at the system level but is at the center of modern-day CSR, such as in the system of the Companies Acts of India on social and environmental spending.

## **Carroll's Pyramid of CSR – Archie B. Carroll**

The Pyramid of CSR by Carroll is the model that was created in 1991 by Archie B. Carroll and outlines the four levels of CSR hierarchy: economic, legal, ethical, philanthropic. These are combined into a comprehensive idea of CSR where the business should first assure itself of profitability before proceeding to the other stage of demands by the society.

### **The various tiers of the Pyramid**

The base of the Pyramid is the economic responsibility of the company (to be profitable, create jobs, innovate). Then the legal responsibility is that of full obedience to law. Ethical responsibility involves doing that which is right, fair and just. Lastly, the very top of the Pyramid is the philanthropic accountability of the company, which requires the company to be obligated towards charity and a good corporate citizen.

### **Application and Contrast**

The various levels are all linked in the Total CSR = Economic + Legal + Ethical + Philanthropic. It is a further development of the Friedman concept of concentrating on the profit of the company with the responsibilities towards society being included, in line with the Stakeholder Theory and TBL in the current CSR, including the compulsory CSR in India.

## **Legal Framework of CSR in India**

### **CSR under Companies Act, 2013**

Equally, CSR according to the Companies Act, 2013 of India as introduced by the provision of Section 135 provides. companies to pay 2 percent of their average net earnings earned during the preceding years on social welfare. programs. This puts India ahead of the rest of the world with legal requirements on CSR. Applicability Criteria Some of the companies that are required to follow this are those companies with a net worth of 500 crore. or an overturn of 1000 crore or over or a net profit of 5 crore or over in their previous. financial year. Foreign firms with a branch in India or holding/ subsidiary company also have to adhere to this.

## CSR Committee and Policy

The CSR Policy is formulated by a CSR Committee comprising of at least three directors including an independent director, recommends spending, and oversees its implementation. The Board approves of this and provides it on their site and their reports, making it fall under Schedule VII (Eradicating Hunger, Education, Health, Environment, Rural Development, etc.). Spending and Compliance The unspent funds would be transferred to a separate CSR account within 30 days, to be utilized within three years or Schedule VII funds in case of failure of the ongoing projects. No compliance will mean a penalty twice the amount in the case of non-compliance that was not spent, to the extent 1 crore, and 50,000 to 25 lakh, on the company and officers respectively. Less than 50 lakh spending will not involve formation of committees.

## Section 135 of Companies Act

Corporate Social responsibility in India is mandatory as stipulated in Section 135 of Companies Act of 2013. It obliges firms to invest at least 2 percent of their average net profits of the last three financial years in CSR activities.

### Key Subsections

(1) It is limited to those companies with net worth of not less than 500 crore, turnover of not less than 1000 crore, and net profit of not less than 5 crore during any financial year. It also needs a CSR Committee 3 directors and at least one of them should be an independent director. This can be calculated the same with foreign companies.

(2) The Committee formulates and advances a CSR Policy to the Board.

(3-4) The Board endorses the policy and makes sure to disclose it in the annual reports and on its site. It will make sure that the CSR activities are in line with Schedule VII of the Companies Act which encompasses activities like hunger eradication, education, gender equality and environmental sustainability.

(5-6) The Board will ensure that CSR spending is made within every financial year. It shall be deposited into an Unspent CSR Account in 30 days to be used within three years.

(7-8) Surplus of CSR activities taken as unspent; Non-compliance fines to be twice amount of unspent (companies) or 2-10 lakh (officers). Impact assessment to be done on projects of 1 crore or more, in the event of average obligation being 10 crore or more.

### Role of CSR Committee

The CSR Committee, as defined in the Companies Act, 2013, in the context of Section 135, is the crucial advisory body that oversees the execution of the mandatory CSR spend by the company. Composition The CSR Committee will comprise at least three directors, where one director is an independent director, if applicable; small companies can omit the formation of the CSR Committee, where the CSR spend is below ₹50 lakh, and the role will fall directly to the Board; the same will apply to foreign companies that have branches in India.

### Key Responsibilities

To formulate and recommend to the Board a CSR Policy for the company and annual CSR plan indicating the projects to be undertaken in a financial year in accordance with Schedule VII to the Act.

To recommend the amount to be spent on CSR in the particular financial year.

To monitor the implementation of the CSR Policy and projects undertaken by the company periodically.

Relation to the Board The CSR Committee will formulate the CSR Policy, but it is the Board that will sanction the same, thereby ensuring that the CSR spend is undertaken, and the company will also be responsible for reporting the same in its reports/websites, etc.

## **Mandatory CSR expenditure (2% rule)**

The mandatory spending of the Indian companies, as mandated by the "2% rule" of the Companies Act, 2013, under Section 135(5), requires that these companies spend at least 2% of their average net profits earned in the immediately preceding 3 financial years, as calculated under Section 198, in each financial year.

## **Calculation Method**

Net profit is arrived at after deducting all expenses and taxes, but before declaring dividends. Administrative expenses up to 5% of the total CSR spend are allowed if they are related to CSR. Ongoing projects up to 3 years allow for the creation of an account for excess funds, which are then transferred to Schedule VII funds if they are not utilized.

## **Compliance and Disclosure**

The Board is required to disclose its reasons for underspending in its Board Report (Form CSR-2 for filing). Non-compliance attracts significant penalties, including twice the amount of underspending for companies, ₹2-10 lakhs for each officer, highlighting the importance of accountability along with the suggestions of the CSR Committee.

## **Schedule VII activities**

The provisions that are required to be undertaken in order to have mandatory CSR expenditure are configured in Schedule VII of the Companies Act of 2013 under Section 135. This section has been interpreted in a general manner so that they can fulfill the socio-economic and environmental needs of the country.

## **Key Activities**

End of hunger, poverty and malnutrition; advancement of healthcare services, sanitation schemes (e.g. Swachh Bharat Kosh), and clean drinking water.

Education and vocational training, particularly to children, women, elderly citizens, and differently abled should be encouraged.

Gender equality and women empowerment (women and orphan homes and hostels); welfare of senior citizens and inequality between backward classes.

Environmental sustainability based on ecological state, preservation of flora and fauna, animal welfare, agro forestry, natural resource conservation and upkeep of water, air and land quality (e.g. Clean Ganga Fund).

National heritage sites protection and arts and culture promotion.

Helping widows and veterans of the military. Rural/national/ paralympics/olympics sports training.

Rural/national/ paralympics/olympics sports training.

## **Additional Provisions**

Donations towards SC/ST/OBC/Minorities/Women Welfare/Development of Slum Areas PM National Relief Fund, PM CARES Fund or Central Government funds. CSR activities cannot be considered as normal businesses and must be beneficial to India. They should conduct activities either by direct execution, NGOs or trusts and the new partners should have 80% spend limit.

## **Reporting & disclosure requirements**

CSR reporting and disclosure under Section 135 of the Companies Act, 2013, provide transparency and accountability in meeting the minimum required spend through detailed annual disclosures.

## **Board Report Requirements**

The Board Report should have a separate section on CSR that provides details of the composition of the CSR Committee, policy, list of projects undertaken, amount spent versus amount due, treatment of unspent/excess funds, and explanations for any shortfall in spending. This requirement is applicable even if the amount spent is zero.

### **Website and Form Filings**

Companies are required to place their CSR policy, details of the committee, projects undertaken, and impact assessments on their websites. Form CSR-2 requires filing details of registration, transfers, audit, and penalties of Form CSR-1 from FY 2020-21.

### **Additional Obligations**

For the Top 1,000 listed companies, the CSR reporting will be part of the BRSR proposed by SEBI, which will be used for ESG reporting. Impact assessments will be required to be filed by companies that have spent over ₹1 Crore on projects, where the average CSR spending is  $\geq$  ₹10 Crore. Non-compliance will result in a penalty up to double the amount of unspent funds.

### **Penalties for non-compliance**

The penalty for non-compliance of CSR provisions under Section 135 of the Companies Act of India, 2013, for failure to spend the mandatory amount of 2%, transfer of funds, and other related issues, has been classified as a civil wrong as of 2021.

### **Key Penalties**

Company: Double the amount of unspent CSR funds or ₹1 crore, whichever is lower, for failure to transfer unspent funds as per subsections (5) and (6).

Officers in Default (such as Directors): 1/10th of the unspent amount of funds or ₹2 lakh, whichever is lower. The earlier penalty for non-compliance was ₹50,000 – ₹25 lakh along with a possible imprisonment of 3 years.

### **Other Violations**

Section 134(8) for insufficient disclosure in the Board Report: ₹3 lakh for companies and ₹50,000 for each officer. Section 450 for general non-compliance: a penalty of up to ₹10,000 for companies and a daily penalty. Non-payment of fines attracts a penalty of up to ₹5 lakh or a possible imprisonment of 6 months as per Section 454(8).

### **Enforcement Trends**

The Ministry of Corporate Affairs (MCA) is an active adjudicating body through ROCs, and the enforcement in the case of Smith N Smith Chemicals, where the company was fined ₹13.73 lakh, and in the case of Clairvoyant India, for committee and spending failures, indicates the strict enforcement, with the total penalties increasing across the FY 2019-24.

## **CSR Governance & Corporate Law Perspective**

### **Board's responsibility**

The overall responsibility of adhering to CSR lies with the Board of Directors, as per the requirements of Section 135 of the Companies Act, 2013, to all the incorporated Indian companies.

### **Core Duties**

The CSR Policy, comprising of annual plans is developed by the Board of Directors and disclosed either via the Director's Report or the Company web site and is required under the Schedule VII of the Act. It also guarantees the spending of the lowest 2% of average net profit is being spent. Also, the

Board must relocate the amount not utilized to the corresponding accounts/ funds within 30 days of the close of the financial year with justifications of non-compliance.

### **Supervision and Control**

Contrary to the Committee, which merely offers advice, the Board has direct participation in the implementation of the CSR activities such as imposing penalties against non-compliance, which would involve imposing fines up to twice the value of the amount not used. CSR is in fact, a process that is Board-led, with people being liable on default.

### **Corporate governance and CSR**

Corporate governance and CSR are interrelated systems in which corporate governance supplies the framework for the implementation of ethical and transparent CSR practices, and CSR adds a new dimension to governance. The Indian Companies Act of 2013 inserted CSR into governance through Section 135.

### **Governance Mechanisms for CSR**

The Boards of companies establish CSR Committees for policy development and monitoring. They approve annual plans in line with Schedule VII and publish CSR expenditure in reports and websites. The SEBI BRSR for top listed companies integrates CSR into ESG reporting. This means governance principles of accountability and transparency are extended to social activities.

### **Mutual Reinforcement of Corporate Governance and CSR**

Corporate governance strengthens CSR legitimacy. Independent directors ensure CSR compliance. This minimizes fines for non-spending. CSR generates trust among stakeholders. This aligns with the ethical and philanthropic layers of Carroll's Pyramid and Stakeholder Theory. This contrasts with Friedman's view of the company as solely a wealth maximization machine.

### **Role of independent directors**

Independent directors have a vital role to play in the implementation of CSR by ensuring that there is an unbiased approach in the implementation of CSR activities by the company.

### **CSR Committee Composition**

A CSR committee should comprise at least three directors, including at least one independent director in the case of applicable companies.

### **Key Responsibilities**

Independent directors will be required to review and/or approve policies on CSR in accordance with Schedule VII, recommend the amount spent on CSR and projects undertaken, monitor implementation of the policy, including the 2% spend and transfer of unspent funds, assess the impact of the projects, and identify and mitigate risks of fund misuse.

### **Broader Link to Corporate Governance**

Independent directors, as per Section 149, have a duty to perform their role in the interests of all stakeholders by chairing committees, thus strengthening the role of CSR in corporate governance, which goes beyond shareholder primacy by prioritizing value to society.

### **CSR as a compliance mechanism**

It acts as a powerful compliance tool under Section 135 of India's Companies Act, 2013, which makes philanthropy a binding duty for qualifying companies through a set of structured mandates, disclosures, and penalties.

### **Structural Compliance Elements**

It requires companies to form CSR Committees for policy development, spend 2% on Schedule VII programs, transfer surplus funds to separate accounts, and submit CSR-2 forms to MCA21 for easy traceability through CSR-1 registration for implementing agencies.

### **Monitoring and Enforcement**

Disclosure-based monitoring through Board Reports, websites, and audits acts as a deterrent against non-compliance, which is penalized with a maximum of twice the amount of surplus funds, thus bringing CSR in line with corporate governance, bridging theories such as Carroll's Pyramid with a focus on compliance over discretion.

### **ESG (Environmental, Social, Governance) integration**

ESGI, where Environmental factors such as reduction of emissions, Social factors such as diversity and welfare of the community, and Governance factors such as transparency and ethics, find direct alignment with the CSR provisions of the Companies Act, 2013, in the context of India.

### **Regulatory Linkages**

The 2% allocation of CSR funds to Schedule VII activities such as health, education, and the environment directly impacts the S and E of ESG, where the MCA/SEBI regulations mandate the disclosure of such spend through the filing of Form CSR-2 and BRSR, with the boards and independent directors overseeing such spend to ensure compliance, in the event of noncompliance, in the form of penalties.

### **Strategic Synergy**

The move is away from mere compliance, in the context of Friedman's theory, to the Stakeholder Theory and Triple Bottom Line sustainability, thereby enhancing the governance quotient of the company, in the context of risk reduction and increased investor appeal, where the ethical and philanthropic levels of Carroll's Pyramid find direct alignment with the ESG report.

### **Areas of CSR Activities**

#### **Education & skill development**

"Education and skill development" is one of the important areas of CSR initiatives under Schedule VII of India's Companies Act of 2013, enabling firms to support initiatives that enhance and improve education and skill development opportunities for disadvantaged groups of society.

#### **Key CSR Focus Areas**

Some of the permissible CSR initiatives include education initiatives such as building schools, scholarships, and digital classrooms; skill development initiatives such as building vocational skills among women and youth and SC/ST communities, and lifelong learning initiatives such as teacher training and STEM education. Tata Group's Tata STRIVE initiative focuses on technical skills, Infosys Foundation's initiatives include grants and digital literacy initiatives, TCS's initiatives include BridgeIT digital classrooms, and Reliance's initiatives include scholarships and sports education initiatives.

### **Impact and Trends**

These initiatives have bridged India's learning crisis with over ₹10,000 crore allocated towards education initiatives in FY 2022-23, making it the largest sector after healthcare. It aligns with ESG's Social dimension and Stakeholder Theory by contributing to inclusive growth through CSR disclosures and BRSR reporting.

### **Healthcare initiatives**

Healthcare initiatives are a major CSR focus under Schedule VII of the Companies Act, 2013. Healthcare initiatives under this include eradicating hunger and malnutrition, preventive healthcare, sanitation, and safe drinking water for addressing the accessibility gap in the rural/underserved population.

### **Major Initiatives**

ICICI Foundation works with IIT Kanpur for the Digital Health Stack initiative for ₹34 crores and cancer care blocks. Tata Motors' Arogya works on mobile medical units and curative healthcare for ₹3.38 crores in FY23. Mondelez India works on Health & Wellness Centers across states for 200 centers. Other initiatives include SBI Foundation's Mauli Seva for destitute women, Hyundai's Sparsh Sanjeevani for telemedicine services, and P.D. Hinduja Hospital for Type 1 Diabetes for 400 children for ₹11 crores.

### **Sector Impact**

Healthcare initiatives have received substantial CSR funds for top 10 companies in FY23. These initiatives fall under SDG 3 for healthcare for all and Ayushman Bharat for infrastructure, training, and awareness. This is a major component under the ESG for the Social pillar.

### **Environmental sustainability**

Environmental sustainability is a major area of focus in CSR activities as per the Companies Act 2013, Section VII, Item iv, which requires companies to undertake activities that foster ecological balance, pollution control, conservation, animal protection, agroforestry, and biodiversity.

### **Prominent Initiatives**

HCL Harit undertakes habitat restoration, Rudraksha sapling plantation along the Ganges, and water conservation in nine states. It aims to plant 10,000 more Rudraksha saplings along the Ganges till 2026. Mahindra Group's Project Hariyali has already planted 18 million trees, resulting in the capture of 3.9 lakh tonnes of CO<sub>2</sub>, winning two Limca records. Cummins India has created "Oxygen Hubs" in Pune, comprising 35,000 trees. Tata Sponge Iron has undertaken afforestation in barren lands in Odisha.

### **Broader Impact**

₹18,000+ crore worth of CSR funds in FY25 will go into activities such as Miyawaki forests, lake development, and clean energy, which are in line with ESG Environmental parameters and the Sustainable Development Goals set by the United Nations.

### **CSR and Ethics**

#### **Business ethics vs. CSR**

Business Ethics and Corporate Social Responsibility (CSR) are two related yet distinct facets in the management of corporations. Business Ethics can be defined as the moral values that govern the internal activities of a company, such as honesty in dealings, fair treatment of employees, anti-corruption practices, and adherence to laws, which form the foundation of corporate integrity as discussed in Carroll's Pyramid Model in the ethical layer. CSR, on the other hand, pertains to the

external activities of a company that voluntarily or mandatorily, as in the case of India's Companies Act 2013 Section 135, addresses the impact on society and the environment through activities such as education, health, and sustainability as discussed in Schedule VII. Ethics limits the damages to the company itself, as discussed in Friedman's Theory within the legal boundaries, while CSR adds value to the stakeholders as discussed in Freeman's Theory and Elkington's Triple Bottom Line, which is linked to ESG reporting. CSR in India has a compliance system that incorporates ethical practices in its activities, such as Board oversight, 2% spend, and reporting.

## **Corporate accountability**

Corporate accountability means the processes, tools, and mechanisms to hold corporations liable for their activities, consequences, and performance in different areas such as financial, social, environmental, and governance, which requires a corporation to be transparent, ethical, and accountable to its stakeholders beyond legal requirements.

## **Key Components**

Corporate accountability consists of various tools such as codes of conduct, audits, whistleblower mechanisms, regulations, reporting requirements such as BRSR in India, stakeholder engagement, and grievance redressal, which provide a corporation with the ability to be accountable to its stakeholders, such as the environment, society, employees, etc., to avoid risks such as pollution, inequality, etc.

## **CSR Linkage**

In the context of the Indian Companies Act 2013, Section 135, the "Corporate Social Responsibility" component of corporate accountability requires a corporation to spend at least 2% of its net profits, disclose the same to the Board, impose consequences of non-compliance, and implement Schedule VII activities such as education, health, etc., which aligns with theories such as "Stakeholder Theory" and "Carroll's Pyramid" along with "ESG" to become a more effective tool of corporate governance.

## **Ethical consumerism**

Ethical consumerism is the practice of consumers making conscious decisions to select products and services that align with their personal ethical, social, environmental, and moral values, hence using their purchasing power to promote activism or "dollar voting" to support companies that have positive ethical values and boycott companies that have detrimental effects on society and the environment. This movement, which started from the Delano Grape Strike of 1965, advocates for the following: reducing, reusing, recycling, fair trade, cruelty-free, support of local businesses, and conscious consumption to reduce the adverse effects of products on the environment.

## **Link to CSR**

Ethical consumerism forces companies to practice actual CSR, like the Indian government's Section 135 on education and sustainability, which aligns with the Stakeholder Theory to increase the call for Carroll's Pyramid of Ethical/Philanthropic Expectations and Elkington's TBL. Consumers hold companies accountable through ESG reporting, which supports governance reporting.

## **Human rights and corporate responsibility**

The human rights and company responsibility also intersect on the need to make sure corporations do not infringe the fundamental human rights like the right to life, health, fair labor processes and non-discrimination in their business activities and the effects of the business on the society as the United Nations Guidelines Principles on Business and Human Rights spells out. Corporations have a duty of respecting human rights, contrary to the obligation and duty of a state and should be prudent in its business operations and influence on society.

## Core Framework (UNGPs)

States are obligated to safeguard human rights, corporations are obligated to uphold the human rights and jointly they are obligated to make remedy available. This encompasses all the internationally accepted human rights that include labor practices to the environmental effects to the local population and CSR activities like the Schedule VII on healthcare and education interventions of India.

## CSR Synergy

HRs are operationalized by the ethical levels of the Pyramid of Carroll and Stakeholder Theory on CSR, which are not similar to that of Friedman. The Companies Act 2013 in India turns CSR spending to be mandatory and rights-based (e.g., spending in sanitation and gender equality), and makes the Board liable and ESG reporting more responsible towards corporate responsibility in the wake of the Bhopal tragedy.

## Criticism & Challenges of CSR

### Profit vs. social responsibility debate

The Profit vs. Social Responsibility debate

This debate is based on Friedman's doctrine of 1970, which holds the opinion that the sole responsibility of the business is to increase the profits of the shareholders within the bounds of law and ethics and that CSR is an act of managerial overreach and can be termed as "taxation without representation."

### Key Arguments

Friedman's doctrine gave priority to the interests of the shareholders and argued that the resources invested in social activities could have instead been invested by the individual to do philanthropy. However, the proponents of social responsibility believe that CSR can provide greater sustainability and thus greater appeal to the investors, as evident in the case of India's Companies Act 2013, which requires companies to spend 2% of their profits on CSR.

### Modern Resolution

It has now been empirically proved that "doing good" results in better performance for the companies, and this has shifted the focus towards the hybrid model.

### Implementation challenges

However, CSR implementation is also facing many challenges despite the availability of structured guidelines such as the Companies Act 2013, India. The main challenges include the absence of standardized metrics for evaluating the long-term impact, the lack of synchronization between CSR objectives and business strategies, insufficient stakeholder engagement, resource constraints, and transparency issues regarding the utilization of CSR funds.

### India-Specific Obstacles

In the case of India, the mandatory 2% spend is also facing many challenges such as the lack of capabilities of local NGOs, complexities of regulatory compliance, such as CSR-1 registration, transfer of unspent amounts, duplication of projects due to the absence of coordination, cultural issues faced while executing projects in rural areas, difficulties faced by the Board of Directors and CSR committees while assessing the impact of projects exceeding ₹1 Crore, and penalties for non-compliance, which may not address the execution-related issues.

### Pathways Forward

The solutions include strategic synchronization with ESG/BRSSR, working with credible NGOs, technology for monitoring CSR spend, such as digital dashboards, and capacity building for ethical

implementation, as proposed by Carroll's Pyramid, thus bridging the gap between Friedman's Profit Maximization Theory and Stakeholder Theory.

## Conclusion

From philosophical debates such as Friedman's Shareholder Theory, CSR has grown into well-defined models incorporating Stakeholder Theory, TBL, and Carroll's Pyramid Model, with India taking the lead in making it mandatory through Section 135 of the Companies Act 2013, which requires 2 percent of profits to be spent on areas such as education, healthcare, and sustainability under Schedule VII. Though the implementation is difficult, CSR has helped in the development of better corporate governance through the Board, independent directors, ESG reporting, and penal provisions, promoting ethical consumerism and respecting human rights while balancing profits and impacts.

---

## . References (OSCOLA Edition)

### Websites and Articles

1. "What Is Corporate Social Responsibility (CSR)?" (*HEC Paris*) <<https://www.hec.edu/en/what-corporate-social-responsability-csr>>
2. "What Is Corporate Social Responsibility?" <<https://www.apiday.com/glossaries-posts/csr-what-is-corporate-social-responsibility>>
3. Dangui R and Dangui R, "Corporate Social Responsibility: Past, Present, and Future" (*Everfi*, February 9, 2026) <<https://everfi.com/blog/community-engagement/csr-history/>>
4. ACCPAdmin, "Updated – Corporate Social Responsibility: A Brief History" (*Association of Corporate Citizenship Professionals*, July 30, 2024) <<https://accp.org/news/accp-insights-blog/corporate-social-responsibility-brief-history/>>
5. Admin, "Milton Friedman's Shareholder Theory on CSR: A Critical Analysis" (*Assignment Helper*, December 21, 2024) <<https://assignmenthelper.org/milton-friedman-csr-analysis/>>
6. Atlassian, "Stakeholder Theory: Definition & Framework | The Workstream" (*Atlassian*, November 17, 2025) <<https://www.atlassian.com/work-management/project-collaboration/stakeholder-theory>>
7. Collaboratives UO, "Triple Bottom Line" (*UW Online Collaboratives*, October 21, 2024) <<https://uwex.wisconsin.edu/stories-news/triple-bottom-line/>>
8. Jurevicius O, "Carroll's Pyramid of Corporate Social Responsibility Explained" (*Strategic Management Insight*, June 16, 2025) <<https://strategicmanagementinsight.com/tools/carrolls-csr-pyramid/>>
9. Garg R and Garg R, "Section 135 of Companies Act, 2013" (*iPleaders*, February 1, 2024) <<https://blog.ipleaders.in/section-135-of-companies-act-2013/>>

10. “Section 135. Corporate Social Responsibility | Companies Act Integrated Ready Reckoner|Companies Act 2013|CAIRR” (*Companies Act Integrated Ready Reckoner/Companies Act 2013/CAIRR*) <<https://ca2013.com/135-corporate-social-responsibility/>>
11. Ahuja A, “Role and Responsibilities of CSR Committee and BOD - CSR” (*CSR*, October 19, 2023) <<https://www.csrsaes.in/role-and-responsibilities-of-csr-committee-and-bod/>>
12. Ghuliani C, “India Companies Act 2013: Five Key Points about India’s ‘CSR Mandate’ | Blog | Sustainable Business Network and Advisory Services | BSR” <<https://www.bsr.org/en/blog/india-companies-act-2013-five-key-points-about-indias-csr-mandate>>
13. Shivam and Legal C, “Corporate Law in India: Responsibility Reporting & Governance Standards Explained” (*Corrida Legal*, July 31, 2025) <<https://corridalegal.com/corporate-law-in-india-responsibility-reporting-governance-standards-explained/>>
14. Legal eMinds, “Schedule 7 of Companies Act, 2013 : Activities Which May Me Included By Companies in Their Corporate Social Responsibility Policies - Corporate Law Reporter” (*Corporate Law Reporter - the Daily Journal*, May 29, 2020) <[https://corporatelawreporter.com/companies\\_act/schedule-7-of-companies-act-2013-activities-which-may-me-included-by-companies-in-their-corporate-social-responsibility-policies/](https://corporatelawreporter.com/companies_act/schedule-7-of-companies-act-2013-activities-which-may-me-included-by-companies-in-their-corporate-social-responsibility-policies/)>
15. “Article ‘CSR in India: Compliance, Activities & Penalties 2025 ’ by Gadhia Associate” <<https://gadhiaassociate.com/article.php?id=36>>
16. The CSR Universe, “CSR Framework: Composition of CSR Committee - Roles and Responsibilities towards CSR Compliance & Monitoring” *The CSR Universe* (November 6, 2021) <<https://thecsruniverse.com/articles/csr-framework-composition-of-csr-committee-roles-and-responsibilities>>
17. “IMPLEMENTING CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY IN INDIA THROUGH BOARD GOVERNANCE – RostrumLegal” <<https://www.rostrumlegal.com/implementing-corporate-governance-and-corporate-social-responsibility-in-india-through-board-governance/>>
18. Arora R, “Role of Independent Director - Skill Arbitrage Blog” (*Skill Arbitrage Blog*, November 13, 2025) <<https://skillarbitra.ge/blog/role-of-independent-director/>>
19. Briefing I, “Corporate Social Responsibility in India: A Guide” (*India Briefing News*, February 4, 2026) <<https://www.india-briefing.com/news/corporate-social-responsibility-india-5511.html/>>
20. Monika Chhimwal, “India’s ESG Rules Are Redefining Corporate Accountability” *Down to Earth* (February 18, 2026) <<https://www.downtoearth.org.in/environment/indias-esg-rules-are-redefining-corporate-accountability>>
21. “Top Companies: CSR in Education in India” <<https://proteantech.in/articles/top-csr-in-education-companies-india/>>

22. Bhattacharya A, “Top 10 Companies for CSR in Healthcare in India 2023” (*The CSR Journal*, February 28, 2025) <<https://thecsrjournal.in/corporate-social-responsibility-csr-news-top-10-companies-csr-healthcare-india/>>
23. “DevInsights” <<https://www.devinsights.co.in/blogs/environmental-sustainability-under-corporate-social-responsibility-csr>>
24. WhistleBlower Security (a Case IQ company), “Business Ethics vs. Corporate Social Responsibility: What’s the Difference? - Explore Our Ethics Blog for Industry Insights” (*WhistleBlower Security (a Case IQ Company)*) <<https://www.whistleblowersecurity.com/blog/business-ethics-vs--corporate-social-responsibility-whats-the-difference>>
25. Directory S, “Corporate Accountability Mechanisms → Term” (*Pollution → Sustainability Directory*, December 1, 2025) <<https://pollution.sustainability-directory.com/term/corporate-accountability-mechanisms/>>
26. Nelson G, “Ethical Consumerism: How Mindful Purchases Shape Business Trends” *SUCCESS* (January 29, 2026) <<https://www.success.com/what-is-ethical-consumerism>>
27. Sehgal DR and Sehgal DR, “Corporate Social Responsibility in Light of Human Rights Law and Indian Legal Framework” (*iPleaders*, June 16, 2021) <<https://blog.ipleaders.in/corporate-social-responsibility-light-human-rights-law-indian-legal-framework/>>
28. Butler R and Butler R, “Private Equity Podcast | Private Equity Podcast | The Milton Friedman Corporate Responsibility” *Fund Shack* (February 23, 2024) <<https://fund-shack.com/the-milton-friedman-corporate-responsibility-debate/>>
29. “Challenges and Solutions in Corporate Social Responsibility Implementation” (*Challenges and Solutions in Corporate Social Responsibility Implementation*) <<https://neyaglobal.com/journal-nonprofit/challenges-and-solutions-in-corporate-social-responsibility-implementation/>>
30. Taylor D, “Milton Friedman Was Wrong: Just Cause for Corporate Social Responsibility – Taylor Morgan Capital” <<https://www.taylormorgancapital.com/blog/milton-friedman-was-wrong/>>