

# The Role of Corporate Social Responsibility in Mitigating Corporate Liability: A Comparative Study

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## Abstract

What is the impact of Corporate Social Responsibility (CSR) initiatives in mitigating corporate liability? Tracing the historical trajectory of CSR and its integration into corporate frameworks shows a dynamic movement influenced by society expectations as well as corporate incentives. This study assesses the degree to which companies with well-established CSR programs face lower legal and reputational risks in comparison to companies without such initiatives. Through case studies and empirical analysis, the study examines the effectiveness of CSR strategies in risk mitigation, highlighting the role of stakeholder engagement. Presenting a comprehensive knowledge of how CSR practices assist firms in mitigating legal, ethical, and reputational concerns is the study's main objective. By delving into the Indian corporate landscape, it corroborates previous findings by demonstrating a favorable association between CSR and firm performance. It contributes to the existing body of knowledge by providing a thorough and comparative analysis that elucidates the potential benefits of CSR in handling legal and reputational issues that corporations may encounter. It seeks to examine the role of government in supporting CSR activities. It addresses the challenges and issues that corporations face when implementing CSR initiatives, offering effective ways to overcome these obstacles. Emphasizing CSR as more than a charitable endeavor, the study positions it as a strategic imperative for companies aiming to navigate the challenging landscape of corporate liability while fostering societal welfare. Overall, this research aims to deepen understanding of the symbiotic relationship between CSR and corporate liability, offering insights for policymakers, corporate leaders, and scholars to bolster ethical and sustainable business practices.

## INTRODUCTION

CSR is a strategic aspect of businesses operating in a tribulation zone of corporate liability and working as a part of the structure, claiming their accountability. The paper builds up on the topic of “The Impact of CSR in Mitigating Corporate Liability”<sup>1</sup> and ponders on society, the environment, and how corporations involve their business within the society, acting as catalysts to global innovation. The discussion selected for the study is about how a corporation can build a good relationship with its clients and at the same time build a name for itself without tarnishing its image by involving in any liable activities.

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<sup>1</sup> Reinier H. Kraakman, ‘Corporate Liability Strategies and the Costs of Legal Controls’ (1984) 93 Yale LJ 857 <[https://heinonline.org/hol-cgi-bin/get\\_pdf.cgi?handle=hein.journals/ylr93&section=48](https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/ylr93&section=48)> accessed 21 April 2024.

A corporation should adhere to universal morals and legal requirements when conducting business internationally. This is because every country has its own unique culture,<sup>2</sup> and living habits.<sup>3</sup> An activity that is good for a certain country might adversely impact another. If corporations act responsibly, they can avoid such liability that affects the name of the corporation.

CSR is a widely used term. It has various meanings, but generally, it is about how a company manages and improves its business processes, looking at its impact on all stakeholders (not just shareholders) and considering the social, economic, and environmental implications. “It is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large”.<sup>4</sup>

“CSR means and includes but is not limited to: -

1. Projects or programs relating to activities, areas or subjects specified in Schedule VII,<sup>5</sup> to the Companies Act, 2013;<sup>6</sup> (hereinafter referred to as the “Act”) or
2. Projects or programs relating to activities undertaken by the board of directors of a company in pursuance of recommendations of the CSR Committee of the Board as per declared CSR Policy of the company subject to the condition that such policy will cover subjects specified in Schedule VII of the Act”.<sup>7</sup>

It is important to note that CSR is not an excuse for bad decisions as it also involves proper ethical business practices and accountability for its decisions. That is to say, it is more about how a company conducts its business than the end result. For example, a company may make some bad business decisions that have negative results, but if it conducts relations with all parties involved in a responsible manner, it can be considered to have been socially responsible.

CSR is an extensive concept that is built into many of the business models we see today. Indeed, the entire notion of CSR is based on the consideration that the amount of power a company yields can and should be used for the benefit of individuals beyond just its shareholders. In other words, CSR is an approach to business that makes it sensible and practical for companies to look beyond the dogma of maximizing profit and incorporate social and environmental considerations into their decision-making processes. Companies’ adoption of CSR is centered on their utilization of management expertise and business innovations in the provision of ‘public goods’.<sup>8</sup>

<sup>2</sup>Adam Lindgreen & Valerie Swaen, ‘Corporate social responsibility’ (2010) 12 IJMR 1 <<https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-2370.2009.00277.x>> accessed 22 April 2024.

<sup>3</sup>Walter de Gruyter, *Corporate Governance and Directors' Liabilities: Legal, Economic, and Sociological Analyses on Corporate Social Responsibility* (Klaus J. Hopt and Gunther Teubner (eds.), European University Institute 1985) 1 <[https://books.google.com/books?hl=en&lr=&id=hLFuz9IG9eUC&oi=fnd&pg=PR4&dq=corporate+social+responsibility+and+corporate+liability&ots=7ERFzB1jSd&sig=ucUl6pR6DSJLVNvITUJAj6\\_DXo](https://books.google.com/books?hl=en&lr=&id=hLFuz9IG9eUC&oi=fnd&pg=PR4&dq=corporate+social+responsibility+and+corporate+liability&ots=7ERFzB1jSd&sig=ucUl6pR6DSJLVNvITUJAj6_DXo)> accessed 22 April 2024.

<sup>4</sup>Richard Holme & Phil Watts, ‘Corporate Social Responsibility: Making Good Business Sense’ [2000] World Business Council for Sustainable Development 1 <<http://www.ceads.org.ar/downloads/Making%20good%20business%20sense.pdf>> accessed 21 June 2024.

<sup>5</sup>Specifies the areas or subjects to be undertaken by the company as CSR activities.

<sup>6</sup>The Companies Act, 2013(Act 18 of 2013).

<sup>7</sup>The Companies (CSR Policy) Rules 2014, rule 2(c).

<sup>8</sup>Ministry of Corporate Affairs, ‘Report of the High Level Committee’ [2015] 1-54, 26 <<https://www.csr.gov.in/bin/dms/getdocument?mds=ALi0%252FdNf%252BUavL7A5VsU2wg%253D%253D&type=open>> accessed 23 June 2024.

## CHAPTER OVERVIEW

This dissertation is divided into four distinct parts. The first part titled ‘Discerning CSR and Corporate Liability: What are the classical and modern thoughts on the issues of CSR and its context in law and how these views are translated into the real regulations and common standards?’ will explore the legal framework surrounding CSR and corporate liability, examining relevant laws, regulations, and standards. The second part titled ‘Effectiveness of CSR Initiatives: Does it aid in the issue of corporate liability by reducing the risks like legal disputes, regulatory offences, and damaging of reputation to the corporations?’ delves into the diverse CSR strategies<sup>9</sup> implemented by corporations and how is the real CSR commitment different from mere compliance in corporate practices.

The third part titled ‘In What Ways Can CSR Programs Provide Strategic Intelligence for Managing Social Risks?’ discusses the legal regimes, strategies and discrepancies of implementing CSR in different areas.<sup>10</sup> Overall, this chapter seeks to demonstrate the effectiveness of different approaches to managing corporate liability.

The fourth and final part titled ‘Mapping the Future Course: Recommendations and Conclusion’ will synthesize the findings from the preceding sections and propose avenues for further study in this field. It will also offer suggestions for policymakers, businesses, and stakeholders to foster a more sustainable and responsible corporate environment. It will highlight emerging trends and potential challenges that could influence the future trajectory of CSR and corporate accountability.

## RESEARCH QUESTIONS

1. How does the legal framework surrounding CSR influence corporate liability, and to what extent does it provide a basis for mitigating legal risks associated with corporate activities?
2. How can a strong focus on environmental sustainability through CSR initiatives contribute to a company’s long-term financial health?
3. What trends emerge in the interplay between CSR activities and legal risk exposure reduction and how does it alter when there are legal, cultural, and economic factors in the equation?

### **1. DISCERNING CSR AND CORPORATE LIABILITY: WHAT ARE THE CLASSICAL AND MODERN THOUGHTS ON THE ISSUES OF CSR AND ITS CONTEXT IN LAW AND HOW THESE VIEWS ARE TRANSLATED INTO REAL REGULATIONS AND COMMON STANDARDS?**

The concept of CSR gained momentum as a necessity for business as well as an ethical expectation of society, amid the increasing corporate standards. Incorporating CSR into a legal framework would reinforce the importance of CSR in guiding the behavioural patterns of the corporations and further the search for a social, environmental and economic optimal. This research looks at CSR from the perspective of corporations, classifiers, and modern lawyers to get a view of how CSR is developing legally.

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<sup>9</sup> S. Prakash Sethi, Terrence F. Martell and Mert Demir, ‘Enhancing the Role and Effectiveness of Corporate Social Responsibility (CSR) Reports: The Missing Element of Content Verification and Integrity Assurance’ (2017) 144 Journal of Business Ethics 59 <<https://link.springer.com/article/10.1007/s10551-015-2862-3>> accessed 23 April 2024.

<sup>10</sup> Larry Cata Backer, ‘Multinational Corporations, Transnational Law: The United Nations' Norms on the Responsibilities of Transnational Corporations as a Harbinger of Corporate Social Responsibility in International Law’ (2005) 37 Columbia Human Rights Law Review 287 <[https://heinonline.org/hol-cgi-bin/get\\_pdf.cgi?handle=hein.journals/colhr37&section=13](https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/colhr37&section=13)> accessed 22 April 2024.

After a careful examination of the scientific literature,<sup>11</sup> one can notice several approaches to CSR, from its origins in philanthropy and moral obligations to the journey of its being perceived as a strategic necessity for sustainable business practices. For example, in academics, Mark B. Baker, Douglass Cassel, and Thomas Donaldson published monographs that focused on the logical ramifications and operationalisation of CSR in the context of the legal framework.<sup>12</sup> The views, which are articulated in the course of the study, enhance the knowledge of all the various features of CSR and its role as both a corporate governance component and a social responsibility indicator.

### 1.1 THE SHAREHOLDER PRIMACY MODEL

Milton Friedman, a famous economist, presented his argument in a 1970 essay titled “The Social Responsibility of the Business is to Increase Its Profits” that the main responsibility of a corporation would be to its shareholders.<sup>13</sup> The shareholder primacy model, according to which the decision-making of corporations should be made in a way that benefits those who own the productive resources in a company. Proponents of this view suggest that companies will always be the most effective when they operate within their specialised and core functions and that corporate social responsibility is the duty of the government and civil society organisations.

Nonetheless, the shareholder primacy model which is mainly a narrow approach has been criticized. Critics follow by stating that corporations have an ethical responsibility to look into the interests of all the stakeholders and not just the shareholders. Further, they emphasize the fact that the organisations encompass a range of stakeholders like employees, customers, communities or the environment and that the sustainability of the corporation is contingent on the sound state of those stakeholders.<sup>14</sup>

### 1.2 REGULATORY FRAMEWORK

The related laws around CSR encompass various standards and conventions from international bodies aimed at making corporate conduct more responsible. Offices such as the International Labour Organisation (ILO) and the Organisation for Economic Cooperation and Development (OECD) play significant roles in defining core human rights practices, labour standards, and the issues of environmental sustainability.<sup>15</sup> However, it is crucial to ensure that the standards are easily understood to be able to translate them into a practical version for different industries without losing its context.

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<sup>11</sup> E.R. Osagie and others, ‘Individual Competencies for Corporate Social Responsibility: A Literature and Practice Perspective’ (2016) 135 Journal of Business Ethics 233 <<https://link.springer.com/article/10.1007/s10551-014-2469-0>> accessed 23 April 2024.

<sup>12</sup> Georges Enderle, ‘Corporate Responsibility for Wealth Creation and Human Rights’ (Cambridge University Press 2021) 1 <<https://www.cambridge.org/core/books/corporate-responsibility-for-wealth-creation-and-human-rights/D668DE0D9B41EE23252113E8C4EC23A4>> accessed 21 June 2024.

<sup>13</sup> Milton Friedman, ‘The Social Responsibility of Business is to Increase its Profits’ in Walther Ch. Zimmerli, Klaus Richter and Markus Holzinger (eds.), *Corporate Ethics and Corporate Governance* (Springer 2007) <[https://link.springer.com/chapter/10.1007/978-3-540-70818-6\\_14](https://link.springer.com/chapter/10.1007/978-3-540-70818-6_14)> accessed 24 April 2024.

<sup>14</sup> Robert J. Rhee, ‘A Legal Theory of Shareholder Primacy’ (2017) 102 Minnesota Law Review 1 (forthcoming) <<https://scholarship.law.ufl.edu/cgi/viewcontent.cgi?article=1004&context=working>> accessed 27 June 2024.

<sup>15</sup> Christian Vidal-León, ‘Corporate Social Responsibility, Human Rights, and the World Trade Organization’ (2013) 16 JIEL 893 <<https://academic.oup.com/jiel/article-abstract/16/4/893/794849>> accessed 23 April 2024.

Under Section 135 of the Act, companies eligible<sup>16</sup> are required to establish a CSR Committee to monitor the CSR program and to set aside a part of their profits for CSR operations. Disregarding this regulation will come with penalties and fines. However, High Level Committee on CSR, 2018 recommended that companies having prescribed CSR amount below Rs. 50 lakhs be excused from creating a separate CSR Committee, with the Board performing the committee's functions.<sup>17</sup> A litmus test of efficiency for the CSR drives and compliance with legal regulation is an impact assessment. Companies have to publicize full CSR reports, with the divisions of funds, the activities effectively implemented, the outreach attained and the details of unspent CSR funds transfer and utilisation according to prescribed regulations.

### 1.3 MODERN VIEWS: THE SCOPE OF RESPONSIBILITIES

CSR has made evolutionary changes wherein an extensive corporate responsibility scope has been introduced.<sup>18</sup> Moreover, to shareholders, these corporations are now required to acknowledge other stakeholders such as workers, communities and the environment in the operations.

Modern CSR has three significant aspects: social performance, environmental sustainability and ethical behaviour. *Social impact* is about implementing practices like paying fair wages, providing safe working conditions, and honouring workers' rights to join organisations and trade unions. Diversity and inclusion imply the recruitment of people from multiple backgrounds that represent the diversity of the communities in which the company operates and create a culture of inclusion where everyone feels respect.<sup>19</sup> Community engagement entails providing financial support to the neighbourhoods in which the business is located through charity programs, a volunteer force and becoming a contributor to local initiatives.<sup>20</sup>

*Environmental sustainability* is achieved by minimizing pollution including greenhouse gases and other pollutants, sustainable resource management which goes for water, energy and raw materials with the view of efficient use and renewable alternatives, and lastly action to mitigate climate change that involves the reduction of carbon emissions and adapting to the effects of the climate change.<sup>21</sup>

*Ethical practices* in modern CSR include transparency, business practices with fairness, and abstaining from unethical behaviours.<sup>22</sup> Transparency should be achieved by publishing sustainability reports, clearly communicating with stakeholders, and using independent audits. Supply chain management is another

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<sup>16</sup> Companies having net worth of Rs. 500 crore or more, or turnover of Rs 1000 crore or more, or net profit of Rs. 5 crore or more.

<sup>17</sup> Ministry of Corporate Affairs, 'Report of the High Level Committee on CSR' [2018] 1-119,61  
<[https://www.mca.gov.in/Ministry/pdf/CSRHLC\\_13092019.pdf](https://www.mca.gov.in/Ministry/pdf/CSRHLC_13092019.pdf)> accessed 24 June 2024.

<sup>18</sup> Samuel O. Idowu and Celine Louche (eds.), *Theory and Practice of Corporate Social Responsibility* (1<sup>st</sup> edn, Springer 2011)  
<<https://link.springer.com/content/pdf/10.1007/978-3-642-16461-3.pdf>> accessed 24 April 2024.

<sup>19</sup> 'Corporate Sustainability Responsibilities and Initiatives' (*Trace X*, 8 September 2023)  
<<https://tracextech.com/corporate-sustainability-responsibilities/>> accessed 24 June 2024.

<sup>20</sup> Devika Sharma & Rashmi Sharma, 'A Review Literature on University Social Responsibility Initiatives in the Global Context' (2019) 6 JETIR 27 <[https://www.researchgate.net/profile/Devika-Sharma/8/publication/349924101\\_A\\_REVIEW\\_LITERATURE\\_ON\\_UNIVERSITY\\_SOCIAL\\_RESPONSIBILITY\\_INITIATIVES\\_IN\\_THE\\_GLOBAL\\_CONTEXT/links/6051fdec299bf173674c79de/A-REVIEW-LITERATURE-ON-UNIVERSITY-SOCIAL-RESPONSIBILITY-INITIATIVES-IN-THE-GLOBAL-CONTEXT.pdf](https://www.researchgate.net/profile/Devika-Sharma/8/publication/349924101_A_REVIEW_LITERATURE_ON_UNIVERSITY_SOCIAL_RESPONSIBILITY_INITIATIVES_IN_THE_GLOBAL_CONTEXT/links/6051fdec299bf173674c79de/A-REVIEW-LITERATURE-ON-UNIVERSITY-SOCIAL-RESPONSIBILITY-INITIATIVES-IN-THE-GLOBAL-CONTEXT.pdf)> accessed 25 April 2024.

<sup>21</sup> *ibid.*

<sup>22</sup> Mark S. Schwartz, *Corporate Social Responsibility: An Ethical Approach* (Broadview Press 2011)  
<<https://books.google.com/books?hl=en&lr=&id=IBBbDwAAQBAJ&oi=fnd&pg=PA7&dq=corporate+social+responsibility+modern+ethical+practices&ots=4ewQlriQQQ&sig=dD6w7DR6wxGFOBsd7VIXw0aHNik>> accessed 25 April 2024.

aspect, aimed at guaranteeing that not only the suppliers but also the value chain of the whole company is following ethical labour practices and environmental requirements.<sup>23</sup>

All these upsides are further backed by various sources. For instance, the rise of consumer interest in sustainable practices can be seen in studies by Nielsen. The research by Nielsen in 2015, which is called the “Global Sustainability Report” has revealed that 66% of global consumers indicate their willingness to pay higher prices for sustainable brands or products.<sup>24</sup> This fairly implies that the buyers are becoming more and more driven to make their purchases not only with profitability in mind but also with the social and environmental responsibility of the company.

Although modern CSR has these elements, they are not used in Indian context currently. Nevertheless, India may learn from this and begin implementing such aspects.

Walking the narrowest rope between pursuing the maximum profits and taking social responsibility is what remains a difficult goal. Although companies are increasingly held accountable for their decisions and the consequences of their actions, this field with changing perceptions of CSR is quite complex, therefore, knowing its practical and legal implications, as well as the differing perceptions on CSR, is rather important.

## **2. EFFECTIVENESS OF CSR INITIATIVES: DOES IT AID IN THE ISSUE OF CORPORATE LIABILITY BY REDUCING RISKS LIKE LEGAL DISPUTES, REGULATORY OFFENCES, AND DAMAGING OF REPUTATION TO THE CORPORATIONS?**

CSR activities might be considered a valuable instrument which can be used to keep under control the risks and to build up a strong position with stakeholders. Yet, it should be understood that CSR has its flaws and the actual implementation of CSR should be done sincerely and transparently. Companies that make themselves CSR-oriented are possibly to overcome various risks related to their overall operations and ultimately create a name for themselves in the business environment.

The section of discussion combines the findings and more analysis, emphasizing the major insights yielded by CSR efficacy as a risk mitigation strategy.<sup>25</sup> It focuses on the need for a preventive form of risk management, consultative engagement, regulatory adherence and incorporation of CSR into core business strategies. CSR projects can be an effective way for business entities to manage risks and trust building with the stakeholders. Yet, it's necessary to keep in mind the boundaries of CSR as well as real and open implementation. Companies that fully integrate CSR into their core business strategy will probably be more capable to work through a risky environment and attain their long-term goals.

### **2.1. CSR AND RISK REDUCTION**

**2.1.1. LEGAL RISK MITIGATION:** Companies that practice proactive CSR activities that complement the current regulations can avoid legal troubles.

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<sup>23</sup> M. Farhan Younus and others, ‘The impact of Corporate Social Responsibility on Supply Chain’ (2016) 3 JEI 1 <[https://www.researchgate.net/publication/327627132\\_The\\_impact\\_of\\_corporate\\_social\\_responsibility\\_on\\_supply\\_chain](https://www.researchgate.net/publication/327627132_The_impact_of_corporate_social_responsibility_on_supply_chain)> accessed 21 June 2024.

<sup>24</sup> Qaisar Abbas, ‘Sustainable Marketing in the Age of Environmental Consciousness’ (2024) 11 JETIR 317 <<https://www.jetir.org/papers/JETIR2401036.pdf>> accessed 23 June 2024.

<sup>25</sup> Hao Lu, ‘Investigating the Efficacy of Corporate Social Responsibility from A Risk Management Perspective’ (DPhil thesis, University of Calgary 2020) <<https://prism.ucalgary.ca/server/api/core/bitstreams/46eea3d3-ff01-4f8c-a5c1-430f912a1ef6/content>> accessed 26 April 2024.

**2.1.2. STAYING AHEAD OF REGULATIONS:** Through the use of green principles such as the prevention of pollution or the use of renewable resources, companies might manage to escape future regulatory loads or penalties.

**2.1.3. BUILDING REPUTATION AND TRUST:** The demand from consumers for brands with good social and environmental effects is rising. Strongly implemented CSR initiatives might help develop a positive image as well as trust from the side of the public, which will help to minimize the risk of damage caused by negative publicity.

## **2.2. DRAWBACKS OF USING CSR AS A RISK MITIGATION STRATEGY**

**2.2.1 EXPENSIVE IMPLEMENTATION:** CSR endeavors frequently necessitate substantial financial outlays, placing a burden on a company's budget in the absence of prompt profitability.

**2.2.2 GREENWASHING CONCERNS:** Companies will also be involved in greenwashing, promoting deceptive CSR practices, in order to seem more responsible than they really are. Actually, this may work against a company and leave it exposed in the end.

**2.2.3 FOCUS ON INTENT VS. IMPACT:** The existence of a CSR program alone does not reduce risk. Despite all the CSR efforts, if a serious incident occurs, a company would still be exposed to the legal and reputational consequences.

## **2.3. REAL-WORLD CSR INITIATIVES IN ACTION: STRIKING A PROLONGED DECISION FOR THE RISKS AND IMPACT**

CSR is not simply about donations but more about what remains ethically compelling in the long run, so it also covers issues like labour and environmental rights.<sup>26</sup> It's about the same companies applying a whole set of different methods for identifying social and environmental issues in all their business arrangements. Such analysis can be done in various ways, for example, supply chain, employment, environmental protection and social activities. Here are some examples of how companies can integrate CSR into their business practices in compliance with the Act and The Companies (CSR Policy) Rules, 2014:<sup>27</sup>

**2.3.1. SUSTAINABLE SOURCING:** The companies can consider obtaining their materials from suppliers who use sustainable techniques, examples being decreasing water usage or reducing the amount of waste. This may help to make sure the company is always able to find the sources of materials and therefore, the enterprise reduces the impact on the environment.

**2.3.2. ENVIRONMENTAL RESPONSIBILITY:** To deal with the issue of a greater environmental footprint,<sup>28</sup> companies get to the point of energy saving, using recycled material and diminishing emissions. This can be a way of reducing the risks or even alarming effects of climate change and other environmental problems.

**2.3.3. COMMUNITY ENGAGEMENT:** The creation of a sustainable future relies upon the communities where corporations operate too. Hence companies can invest in local causes and programs

<sup>26</sup> Oliver Falck & Stephan Heblich, 'Corporate Social Responsibility: Doing well by doing good' (2007) 50 Business Horizons 247 <<https://www.sciencedirect.com/science/article/pii/S0007681306001674>> accessed 26 April 2024.

<sup>27</sup> 'The Companies (CSR Policy) Rules, 2014' (*Indiacode.nic.in*, 27 February 2014) <[https://upload.indiacode.nic.in/showfile?actid=AC\\_CEN\\_22\\_29\\_00008\\_201318\\_1517807327856&type=rule&filename=rules\\_2014\\_with\\_amendments.pdf](https://upload.indiacode.nic.in/showfile?actid=AC_CEN_22_29_00008_201318_1517807327856&type=rule&filename=rules_2014_with_amendments.pdf)> accessed 23 June 2024.

<sup>28</sup> Caroline Flammer, 'Corporate Social Responsibility and Shareholder Reaction: The Environmental Awareness of Investors' (2013) 56 AMJ 758 <<https://journals.aom.org/doi/abs/10.5465/amj.2011.0744>> accessed 27 April 2024.

like education or job training. It may be for the construction of a school, a nursing home, a community centre, a sports arena, or any other community-focused project, all of which can help build goodwill and create a positive social impact.

#### 2.4. NIKE AND LABOUR PRACTICES: WAY TOWARDS RECTIFYING METHODS

In the 1990s, Nike<sup>29</sup> became a subject of harsh criticism as the accusation of sweatshop labour arose in their foreign factories. Among these accusations was the employment of a minor-age labour force, a salary less than a living wage and an inappropriate work environment. The defamatory statements brought negative press and the risk of losing clients, a thing that would severely endanger the business's market standing.

In an attempt to respond to these issues, Nike implemented multiple CSR campaigns. For such an organisation one of the most important measures was the establishment of an unbiased monitoring system to assess whether its suppliers adhered to its code of conduct. The tone of the code of conduct was expressed by Nike's suppliers concerning their commitment to abide by the following standards: Approved minimum wage, no discrimination, no use of child labour, and safe working conditions.<sup>30</sup>

Given that Nike's CSR policies have been successful, to overcome some of the challenges, a sustainable future for Nike will be created. The firm has demonstrated great efforts in the implementation of fairer working conditions in its supply chain and of late, no child labour has been reported from any of the company's factories. Consequently, Nike took leadership on labour issues and proved to the public their willingness to follow ethical sourcing by doing so avoided bad press and possibly avoided consumer backlash.

This scenario will illustrate how a responsible business can manage reputation risk to maximize its effectiveness. By giving the first preference to ethical sources and allotting workplace funds, Nike has provided other companies with an example of how to tackle labour problems in the supply chain.

It is necessary however to note that CSR is a continuous process, which has to be clean and transparent. Companies with open and responsive showing intentions will enjoy the benefits of CSR including facing less risk, having greater values and earning more. Even though these business initiatives carry with them the risk of high set-up costs and the complexity of measuring their output, CSR is still relevant for these businesses since it helps them gain customer loyalty and trust.<sup>31</sup>

Despite all these hurdles, CSR can be a way of powerful hope for those companies that really want to take part in doing good. Leading businesses will effectively tackle the social, environmental and ethical problems, through this, all the companies will be able to stabilize their business in a complex world and become profitable.

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<sup>29</sup> Beth Kytle & John Gerard Ruggie, 'Corporate Social Responsibility as Risk Management: A Model for Multinationals' ([hks.harvard.edu](http://hks.harvard.edu), March 2005)

<[https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/programs/crj/files/workingpaper\\_10\\_kytle\\_ruggie.pdf](https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/programs/crj/files/workingpaper_10_kytle_ruggie.pdf)> accessed 22 June 2024.

<sup>30</sup> Kristen Bell DeTienne & Lee W. Lewis, 'The Pragmatic and Ethical Barriers to Corporate Social Responsibility Disclosure: The Nike Case' (2005) 60 *Journal of Business Ethics* 359 <<https://link.springer.com/article/10.1007/s10551-005-0869-x>> accessed 27 April 2024.

<sup>31</sup> *ibid.*

### 3. IN WHAT WAYS CAN CSR PROGRAMS PROVIDE STRATEGIC INTELLIGENCE FOR MANAGING SOCIAL RISKS?

CSR programs can serve as a determining factor to succeed in the business environment by gathering strategic information and anticipating social risks. The framework for stakeholder engagement is called the corporate social responsibility program and the groups to be considered in such framework are any parties that may be affected by the company's actions.<sup>32</sup> The aforementioned two-way channel makes it possible for corporations to listen, and even learn from a large number of stakeholders. Through these encounters, companies will get priceless information about the quick understanding of the social problems, the capital structure and the operation environment. With the knowledge gleaned in this process, managers can then utilize it to determine strategies and risk management, thus avoiding the potential minefields that might come their way in the future and operating sustainably for a long time. Here are they: -

#### 3.1. EMERGING SOCIAL ISSUES

This can be achieved potentially through the use of open communication whereby all the stakeholders can alert the companies in advance before the social issues grow into a big threat. By way of an instance, an institution may get feedback on the problems of ethical sourcing through one of the community organisations. The opportunity to get an early warning will enable the company to intrude on the problem and perform actions to guarantee that the company's supply chain is ethical and sustainable.

#### 3.2. THE CORE BUSINESS FOR EFFECTIVE RISK MANAGEMENT IN GLOBAL COMPANIES: KEY AMENDMENTS IN CSR RULES 2021 IN INDIA REGARDING COMPANIES

The Companies (CSR Policy) Amendment Rules, 2021,<sup>33</sup> clarifies and updates some components of the way that businesses in India fulfil their CSR obligation.<sup>34</sup>

**3.2.1. INTERNATIONAL COLLABORATION:** The revision highlights that companies may collaborate with organisations covered under the United Nations (Privileges and Immunities) Act, 1947,<sup>35</sup> for designing, monitoring and evaluating their CSR projects/programmes as well as for capacity building of their own personnel for CSR.<sup>36</sup> This opens a possibility to have more international cooperation and thereby enables companies to tap into the knowledge and experiences of intergovernmental organisations that address social issues.<sup>37</sup>

**3.2.2. PUBLIC AUTHORITY RECOGNITION:** Provision has been made in the amendment that the word 'public authority' will mean the entities subject to the Right to Information Act, 2005.<sup>38</sup> The CSR amount may be spent by a company for creation/acquisition of a capital asset, which shall be held by inter

<sup>32</sup> Jose M. Cruz, 'Mitigating global supply chain risks through corporate social responsibility' (2013) 51 IJPR 3995 <<https://www.tandfonline.com/doi/abs/10.1080/00207543.2012.762134>> accessed 27 April 2024.

<sup>33</sup> 'The Companies (CSR Policy) Amendment Rules, 2021' (*Mca.gov.in*, 22 January 2021) <[https://www.mca.gov.in/Ministry/pdf/CSRAmendmentRules\\_23012021.pdf](https://www.mca.gov.in/Ministry/pdf/CSRAmendmentRules_23012021.pdf)> accessed 23 June 2024.

<sup>34</sup> Mansi Joshi, 'Amendment Rules for (CSR Policy), 2021-A Dichotomy in Implementation and Further Challenges' (2022) 5 Int'l J.L. Mgmt. & Human. 2528 <[https://heinonline.org/hol/cgi-bin/get\\_pdf.cgi?handle=hein.journals/ijlmhs15&section=236](https://heinonline.org/hol/cgi-bin/get_pdf.cgi?handle=hein.journals/ijlmhs15&section=236)> accessed 28 April 2024.

<sup>35</sup> The United Nations (Privileges and Immunities) Act, 1947 (Act 46 of 1947).

<sup>36</sup> The Companies (CSR Policy) Amendment Rules 2021, rule 4(3).

<sup>37</sup> Joshua O. Miluwi, 'Corporate Social Responsibility: Global Idea and National Importance in the 21st Century' (2013) 2 IJARMSS 92 <<https://www.academia.edu/download/32573048/8.pdf>> accessed 28 April 2024.

<sup>38</sup> The Right to Information Act, 2005 (Act 22 Of 2005).

alia a public authority.<sup>39</sup> This helps to establish transparency and responsibility for CSR activities that are being developed between companies and public institutions.<sup>40</sup>

**3.2.3. STREAMLINED IMPLEMENTATION:** In the amendment, a CSR to oversee the implementation of CSR projects will include a requirement to use registered implementing agencies starting from April 1, 2021.<sup>41</sup> These agencies are thoroughly scrutinized by the Central Government, thus likely enhancing the effectiveness of CSR projects as experienced and competent individuals are recruited to manage CSR initiatives.

**3.2.4. A STRENGTHENED ROLE OF CSR COMMITTEE:** The CSR Committee's role is enhanced by including in plans made annually for the board the CSR activities corresponding with company policy. This plan should cover in detail projects, funding allocation, and processes of evaluation. The result is a more focused and strategic CSR approach, where CSR activities adhere to the core business and social responsibility agenda of the firm.

### **3.3. INDIA'S MANDATORY CSR REGIME COMPARED TO OTHER COUNTRIES' VOLUNTARY CSR POLICIES**

The notion of CSR has become a powerful trend all over the world and a lot of countries have decided to introduce regulations for this purpose. Here, we proceed to have a deep insight into how India's manner of CSR is compared to other countries.

#### **3.3.1. MANDATORY VS. VOLUNTARY FRAMEWORK**

In India, the legal requirement to undertake CSR has been realized by mandating the CSR regime. According to MCA notification,<sup>42</sup> companies that fulfil some particular criteria<sup>43</sup> for instance, have a net worth of INR 500 crores or more, or a turnover of INR 1000 crores or more, or a net profit of INR 5 crores or more, every year a certain percentage of their profits are expected to be contributed towards CSR activities. The CSR spending which is to be done as per the Act is the prescribed minimum of 2% of the average net profit made by the company in the three immediately preceding financial years.<sup>44</sup>

When we compare with other countries like the USA,<sup>45</sup> and the UK,<sup>46</sup> where CSR is voluntary, the situation is quite different. It is a common practice for companies to do CSR not because of the law, but because it is considered the socially-optimal thing to do. In distinction to mandatory measures,

<sup>39</sup> The Companies (CSR Policy) Amendment Rules 2021, rule 7(4).

<sup>40</sup> Li-Wen Lin, 'Mandatory Corporate Social Responsibility Legislation around the World: Emergent Varieties and National Experiences' (2020) 23 U. Pa. J. Bus. L. 429 <[https://heinonline.org/hol-cgi-bin/get\\_pdf.cgi?handle=hein.journals/upjlel23&section=13](https://heinonline.org/hol-cgi-bin/get_pdf.cgi?handle=hein.journals/upjlel23&section=13)> accessed 29 April 2024.

<sup>41</sup> Aakash Vishwakarma, 'Latest Amendments Under CSR Rules and How Does It Helped Pandemic Situation' (LLM dissertation, GALGOTIAS UNIVERSITY 2022) <[https://www.researchgate.net/profile/Aakash-Vishwakarma/publication/363633194\\_Latest\\_Amendments\\_Under\\_CSR\\_Rules\\_and\\_How\\_Does\\_It\\_Helped\\_Pandemic\\_Situation/links/6325f8a10a70852150ff9633/Latest-Amendments-Under-CSR-Rules-and-How-Does-It-Helped-Pandemic-Situation.pdf](https://www.researchgate.net/profile/Aakash-Vishwakarma/publication/363633194_Latest_Amendments_Under_CSR_Rules_and_How_Does_It_Helped_Pandemic_Situation/links/6325f8a10a70852150ff9633/Latest-Amendments-Under-CSR-Rules-and-How-Does-It-Helped-Pandemic-Situation.pdf)> accessed 29 April 2024.

<sup>42</sup> 'FAQs on CSR' (Mca.gov.in, 25 August 2021) <[https://www.mca.gov.in/Ministry/pdf/FAQ\\_CSR.pdf](https://www.mca.gov.in/Ministry/pdf/FAQ_CSR.pdf)> accessed 23 June 2024.

<sup>43</sup> The Companies Act 2013, s 135(1).

<sup>44</sup> ibid, s 135 (5).

<sup>45</sup> Shivangi Sharma, 'Examining CSR Practices in India and the United States' (2017) 5 IJSSHR 9 <<https://www.researchpublish.com/upload/book/Examining%20CSR%20Practices-4751.pdf>> accessed 23 June 2024.

<sup>46</sup> Mayank Barman, 'To impose or not? Comparing CSR Framework in India & UK' (Tccr.com, 4 May 2021) <<https://www.tccr.com/post/to-impose-or-not-comparing-csr-framework-in-india-uk>> accessed 23 June 2024.

organisations are obliged to adopt voluntary social and ecological participation, which is to the benefit of people and nature. Nonetheless, at least in some countries like France,<sup>47</sup> CSR is bonafide through mandatory disclosure requirements.

- **UNITED STATES:**

Committed to a voluntary approach, the United States employs principles such as environmental stewardship and social responsibility as the CSR standards.<sup>48</sup> This, in turn, ends up meaning that the behaviour of businesses might not legally bind them to do specific things in their operations, rather they are encouraged to take initiatives that promote sustainable development, good life ethics and social welfare.

- **UNITED KINGDOM:**

In the UK, companies shall comply with provisions where firms must disclose any problems that satisfy the criteria for material risks which include social factors, environmental concerns, governance, business ethics, and reputation management.<sup>49</sup> Hence, the firm can be regarded as a responsible entity that addresses possible adverse effects arising from its operations on the environment and society, therefore the given information satisfies disclosure requirements.

#### **4. MAPPING THE FUTURE COURSE: RECOMMENDATIONS AND CONCLUSION**

This part has focused on the strengths of CSR initiatives as vehicles for managing social risks and establishing optimum settings for more responsible and sustainable business operations. Key findings include:

##### **4.1. STRATEGIC INTELLIGENCE FOR SOCIAL RISK MANAGEMENT**

Activities related to CSR are getting increasingly common - they help to identify social problems that are high on the agenda of certain stakeholders.<sup>50</sup> Through the concentration on CSR, firms can proactively deal with and even prevent any risks that may develop, which certainly contribute to the cultivation of trust and the strengthening of partnerships. Through CSR, companies not only are ahead of the game by foreseeing and overcoming social problems but also present their proactive striving toward creating a better society where businesses can grow in a sustainable way.

##### **4.2. THE IMPORTANCE OF GENUINE CSR**

Integration of the problem into the company plan and the ability to quantify societal change are necessary

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<sup>47</sup>Idil Kaya, 'The Mandatory Social and Environmental Reporting: Evidence from France' (2016) 229 Procedia 206 <[https://www.researchgate.net/publication/308002995\\_The\\_Mandatory\\_Social\\_and\\_Environmental\\_Reporting\\_Evidence\\_from\\_France](https://www.researchgate.net/publication/308002995_The_Mandatory_Social_and_Environmental_Reporting_Evidence_from_France)> accessed 23 June 2024.

<sup>48</sup> Daniel J. Tschopp, 'Corporate social responsibility: a comparison between the United States and the European Union' (2005) 12 Corporate Social Responsibility and Environmental Management 55 <<https://onlinelibrary.wiley.com/doi/abs/10.1002/csr.69>> accessed 29 April 2024.

<sup>49</sup> Anne Durie, 'Legal Requirements for CSR Reporting in the United Kingdom, Denmark & Australia' (2009) 3 JIALawTA 11 <<https://www.austlii.edu.au/au/journals/JIALawTA/2009/3.pdf>> accessed 23 June 2024.

<sup>50</sup> Janita F. J. Vos, 'Corporate social responsibility and the identification of stakeholders' (2003) 10 Corporate Social Responsibility and Environmental Management 141 <<https://onlinelibrary.wiley.com/doi/abs/10.1002/csr.39>> accessed 25 June 2024.

for CSR to be effective. Companies which cause so called ‘greenwashing’<sup>51</sup> destroy their brands. Overall greenwashing - a deceptive or exaggerated statement about the organisation concerning the environment or its social effect - can in the long run lead to a decrease in the trustworthiness of a company. Customers are less tolerant of businesses that behave improperly in the twenty-first century as they become more conscious of the environment and society.

#### 4.3. THE EVOLVING LANDSCAPE OF CSR

It could be said that the converging force of consumers, investors, and the general public makes CSR one of the important developments in human society. Business operations that do not alter their CSR actions might experience some consequences,<sup>52</sup> like reputational damage and financial loss. Thus, the role of CSR in companies' strategy becomes more and more crucial and without actual actions towards sustainability and solidarity companies can hardly survive.

Within the field of CSR, there is much to be explored, such areas as: developing a thorough understanding of the consequences of CSR on business operations are a few examples which require our attention. One such area is the process of coming up with a pragmatic system of measures of the social and eco capabilities of CSR programs. It is not only the scientists and the practitioners who should be given absolute attention but also a joint effort to produce consistent and valid techniques as well for assessing the actual social and environmental impacts of the CSR programs.<sup>53</sup>

Another way that deserves special attention is to re-think the design of CSR programs to extract those social issues in accordance with different industries. As industries vary, social and environmental challenges also come in different sophistication. So, the CSR strategy needs to be custom-designed as institutionalized. Technological innovations need to be selected from the options available that can meet different industrial CSR responsibility needs such as the environmental and social challenges that an enterprise may face.

The recommended changes that prevail in the current scenario are: -

**4.3.1. THE RISE OF THE PURPOSE-DRIVEN CONSUMER:** The way CSR will look shall depend on different emerging trends as well as challenges in the future. This trend may be illustrated with a new exiting customer<sup>54</sup> - the one who knows exactly what she/he/they want to buy, and why they want to buy it. Nowadays, consumers are more likely to connect with a brand, if they are able to establish plenty of meaningful social values and if they are also willing to practice good sustainable practices for a better society and planet.

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<sup>51</sup> Yue Wu, Kaifu Zhang & Jinhong Xie, ‘Bad Greenwashing, Good Greenwashing: Corporate Social Responsibility and Information Transparency’ (2020) 66 Management Science 3095  
<<https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2019.3340>> accessed 25 June 2024.

<sup>52</sup> Kerstin Anstätt & Jorgen Volkert, ‘Corporate Social Responsibility Impacts on Sustainable Human Development’ (2016) 29 Ekonomski vjesnik/Econviews-Review of Contemporary Business, Entrepreneurship and Economic Issues 193  
<<https://hrcak.srce.hr/ojs/index.php/ekonomski-vjesnik/article/view/4077>> accessed 25 June 2024.

<sup>53</sup> Agnieszka Misztal & Malgorzata Jasiulewicz-Kaczmarek, ‘Environmental issues of the corporate social responsibility’ (2014) 18 Management 58  
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<sup>54</sup> Edward Morrison & Larry Bridwell, ‘Consumer Social Responsibility–The True Corporate Social Responsibility’ (2011) 9 Competition Forum 144 <<http://larrybridwell.com/CSR.pdf>> accessed 24 June 2024.

**4.3.2. THE GROWING POWER OF SOCIAL MEDIA:** The increasing prevalence of social media is one of the major matters that companies should take into account. Social media is one of the most powerful instruments that enables the monitoring of companies by consumers in the event of their CSR undertakings, as well as responding to criticism and relating to the stakeholders online.<sup>55</sup>

**4.3.3. THE CHALLENGE OF GLOBAL SUPPLY CHAINS:** The effective control of non-technical risks within complicated international supply chains will be an issue for companies in the near future. Along the supply chain, cooperation and openness among businesses will be required to allow companies to handle the social and environmental risks which are poorly perceived.

With insights into these specifics, people will be inspired to realize that CSR is a mechanism where inventive companies can cushion risks, build stakeholder trust, and ultimately generate loyalty.

## CONCLUSION

CSR programs play a prominent role in helping companies as a tool to reduce social risks and interact with stakeholders. These programs enable businesses to do different forms of intelligence gathering, assess stakeholder opinions, and also adapt to social changes. Stakeholder engagement enables enterprises to find a way to manage societal issues, make informed choices, and develop novel solutions.<sup>56</sup> Besides, CSR programs allow businesses to stay updated on international standards and foresee the possible threats that might damage their reputation, in the long run, helping them go on operating sustainably. The very essence behind those communication lines is knowing the authentic stories about the main social issue and the views of their stakeholders and also being informed about the social context in which they operate.<sup>57</sup> Understanding the direction of social change can be advantageous for businesses because of the fact that it will help them to accurately spot any new compulsion requirements and be prepared for upgrades. This could result in the elimination of some already existing business practices and a walk-through of the way of avoiding risks to their reputation as a result of future regulations.

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<sup>57</sup> Elisabet Garriga & Domenec Melé, 'Corporate Social Responsibility Theories: Mapping the Territory' (2004) 53 Journal of Business Ethics 51 <<https://link.springer.com/article/10.1023/B:BUSI.0000039399.90587.34>> accessed 30 April 2024.

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