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Corporate Licensing and Regulatory Compliance in India: A Legal Analysis of Corporate Responsibility and Sustainable Governance

GAURAV SHARMA
Research Scholar,
School of Law,
MATS University
Email ID: sharmaadvocatedurg@gmail.com

Abstract

Corporate Social Responsibility (CSR) has emerged as an important component of corporate governance and sustainable business in India. Unlike many jurisdictions where CSR has historically remained largely voluntary, India introduced a statutory CSR framework through Section 135 of the Companies Act, 2013, read with Schedule VII and the Companies (Corporate Social Responsibility Policy) Rules, 2014. The framework became effective from 1 April 2014 and established specified CSR obligations for qualifying companies. At the same time, corporations operating in India are subject to a wide range of licensing, registration, approval and regulatory requirements relating to factories, environment, labour, taxation, consumer protection and sector-specific activities. Compliance with these requirements represents the minimum legal responsibility of a corporation, whereas CSR represents a structured mechanism for contributing to broader social and environmental objectives.

This paper examines the relationship between CSR, corporate licensing and regulatory compliance in India with particular reference to the legal position prevailing up to 31 December 2022. It analyses Section 135 of the Companies Act, 2013, Schedule VII, the Companies (CSR Policy) Rules, 2014 and major amendments introduced up to 2022. It further examines how licensing and regulatory compliance interact with corporate social responsibility, environmental protection, employee welfare, community development and corporate governance. The study adopts a doctrinal and analytical research methodology based primarily on statutory provisions, rules, government notifications, regulatory frameworks and official reports. The paper argues that CSR expenditure cannot be treated as a substitute for mandatory statutory compliance. Rather, responsible corporate conduct requires a two-level framework: first, compliance with mandatory legal and licensing requirements; and second, voluntary or statutorily mandated CSR interventions that generate measurable social and environmental value.

Keywords: *Corporate Social Responsibility, CSR, Corporate Governance, Corporate Licensing, Regulatory Compliance, Companies Act 2013, Sustainability, ESG, India.*

Introduction

The role of business in contemporary society extends beyond profit maximization. Corporations influence employment, natural resources, communities, consumers, public infrastructure and economic development. Consequently, corporate accountability has progressively expanded from conventional financial reporting to social, environmental and governance responsibilities.

India occupies a distinctive position in this development because CSR was given a statutory foundation through the Companies Act, 2013. Section 135 applies to companies meeting specified financial thresholds and requires the constitution of a CSR Committee, formulation of CSR policy and allocation of resources towards eligible CSR activities. The statutory framework became effective from 1 April 2014.

The legal responsibility of corporations, however, does not end with CSR. Companies must also obtain and maintain various registrations, licenses, permissions, consents and approvals depending upon the nature and location of their activities. For example, industrial establishments may be subject to factory licensing, environmental permissions, labour-related registrations, pollution-control requirements and other sector-specific regulatory obligations. The Factories Act, 1948 specifically recognized approval, licensing and registration of factories under Section 6.

This creates an important distinction between **legal compliance** and **CSR responsibility**. A company complying with environmental, labour or factory laws is fulfilling mandatory legal obligations. Such compliance should not automatically be classified as CSR expenditure. CSR is intended to address specified social and environmental objectives beyond the company's ordinary statutory obligations.

The present study therefore examines CSR and corporate licensing as interconnected but legally distinct dimensions of corporate responsibility.

Background of the Study

CSR in India evolved from philanthropic traditions towards a structured governance mechanism. The Companies Act, 2013 represented a significant change by incorporating CSR within company law.

Section 135 applies to companies having:

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

during the immediately preceding financial year. Such qualifying companies are required to constitute a CSR Committee, subject to statutory provisions and applicable exceptions.

The CSR framework initially required eligible companies to spend at least 2% of the average net profits of the preceding three financial years on CSR activities. The Board was also required to disclose CSR-related information in its report. The CSR Policy Rules, 2014 provided further operational details concerning CSR policy, implementation, monitoring and reporting. The Ministry of Corporate Affairs also issued clarifications concerning interpretation and implementation of Schedule VII.

By 2021, the framework had undergone substantial changes, including provisions relating to CSR-1 registration, treatment of unspent CSR amounts and impact assessment for specified companies. These developments strengthened the accountability and monitoring dimensions of CSR.

Statement of the Problem

Corporate entities operate within a complex regulatory environment involving numerous licences, registrations, approvals and statutory obligations. At the same time, companies falling within Section 135 of the Companies Act are required to undertake CSR activities.

A significant conceptual problem arises when corporations treat ordinary regulatory compliance as CSR. For example, providing legally required safety measures to employees, complying with pollution-control standards or maintaining statutory factory requirements cannot automatically be considered CSR simply because these activities generate social benefits.

The problem is therefore to determine:

Whether CSR and corporate licensing should be treated as separate legal responsibilities or as interconnected components of an integrated corporate accountability framework.

The study also examines whether the CSR framework adequately ensured transparency, accountability, impact assessment and responsible corporate behavior.

Objectives of the Study

The study has the following objectives:

1. To examine the statutory framework governing CSR in India up to 2022.
2. To analyze the legal provisions relating to CSR under Section 135 of the Companies Act, 2013.
3. To analyze the relationship between CSR and corporate licensing and regulatory compliance.
4. To distinguish mandatory statutory compliance from CSR expenditure.
5. To examine emerging corporate accountability through sustainability reporting and ESG-related disclosures.
6. To suggest measures for strengthening CSR governance and regulatory accountability.

Hypotheses of the Study

Although the study is primarily doctrinal and analytical, the following hypotheses may provide a framework for future empirical research:

H01: There is no significant relationship between corporate regulatory compliance and effective CSR governance.

H11: There is a significant relationship between corporate regulatory compliance and effective CSR governance.

H02: There is no significant relationship between CSR transparency and corporate accountability.

H12: There is a significant relationship between CSR transparency and corporate accountability.

H03: There is no significant relationship between CSR implementation and sustainable corporate governance.

H13: There is a significant relationship between CSR implementation and sustainable corporate governance.

Research Methodology

The study adopts a mixed- method, descriptive and analytical research design integrating doctrinal legal research with empirical investigation. The doctrinal component examines the legal and regulatory framework governing CSR and corporate governance in India, with particular reference to Section 135, Schedule VII, the Companies (CSR Policy) Rules, 2014 and amendments applicable up to 2022. The empirical component is based on primary data collected through a structured questionnaire from selected companies and corporate representatives in Durg, Division, Chhattisgarh, India. A purposive and convenience sampling approach is adopted for selecting respondents associated with CSR, corporate governance, finance, human resources, legal compliance and senior management. The questionnaire employs a five-point Likert scale to measure perceptions relating to CSR governance, Board involvement, transparency, stakeholder accountability, CSR implementation, impact assessment and corporate governance effectiveness. Secondary data are collected from the Companies Act, MCA notifications and circulars, SEBI regulatory documents, annual reports, CSR reports, sustainability reports, books, journals and research publications. The primary data are proposed to be analyzed using SPSS through frequency and percentage analysis, descriptive statistics, correlation, regression, and chi-square tests, wherever appropriate. The legal findings and empirical results are integrated to assess whether CSR functions as an effective tool for strengthening corporate governance among companies operating in Durg Division. The legal analysis is restricted to the framework applicable up to 2022.

Legal Framework of CSR in India

Companies Act, 2013

Section 135 is the principal statutory provision governing CSR in India.

The section establishes financial thresholds for CSR applicability and provides for CSR governance through the Board and CSR

Committee. The legislation requires qualifying companies to formulate a CSR policy and undertake activities falling within the areas identified in Schedule VII.

The statutory framework therefore transforms CSR from an entirely voluntary philanthropic activity into a regulated corporate responsibility for qualifying companies.

CSR Applicability Threshold

The CSR provisions apply where a company satisfies at least one of the following thresholds:

Parameter	Threshold
Net Worth	₹500 crore or more
Turnover	₹1,000 crore or more
Net Profit	₹5 crore or more

The relevant financial test is based on the immediately preceding financial year under the applicable statutory framework.

The threshold-based approach ensures that CSR obligations are principally imposed on economically significant companies having greater capacity to contribute to social development.

CSR Committee and Board Responsibility

The CSR Committee plays an important role in the governance structure.

Its functions include:

- Formulating and recommending the CSR Policy;
- Recommending CSR expenditure;
- Monitoring CSR Policy implementation;
- Advising the Board on CSR activities.

The Board retains ultimate responsibility for ensuring compliance with applicable CSR provisions.

The Board's Report is also an important disclosure mechanism through which CSR-related information becomes part of corporate reporting.

CSR Expenditure

The statutory CSR framework requires eligible companies to spend at least **2% of the average net profits of the three immediately preceding financial years** on CSR activities, subject to the provisions applicable during the relevant period.

This provision represents an important departure from conventional voluntary philanthropy.

The expenditure requirement seeks to ensure that CSR is integrated into corporate planning rather than being dependent entirely upon discretionary charitable contributions.

Schedule VII and Permitted CSR Activities

Schedule VII identifies broad areas in which CSR activities may be undertaken.

These include areas such as:

- Eradication of hunger, poverty and malnutrition;
- Promotion of health care and sanitation;
- Education and vocational skills;
- Gender equality and empowerment of women;
- Environmental sustainability;
- Protection of national heritage;
- Rural development;
- Slum development;
- Contributions to specified funds;
- Disaster management and related relief activities.

The Ministry of Corporate Affairs clarified that Schedule VII should be interpreted liberally so that activities falling within the underlying subjects may qualify, provided they satisfy the statutory framework.

CSR and Corporate Licensing: Conceptual Relationship

Corporate licensing and CSR should not be regarded as identical concepts.

Corporate licensing represents a legal permission or approval required for conducting a particular activity.

Examples include:

- Factory registration and licence;
- Environmental approvals;

- Pollution-control consents;
- Food-related licences;
- Sector-specific regulatory approvals;
- Labour-related registrations;
- Trade and business permissions.

The Factories Act, 1948, for example, contains provisions concerning approval, licensing and registration of factories and empowers the government to prescribe requirements concerning licences and their renewal.

CSR, in contrast, is a structured mechanism through which eligible companies undertake activities falling within legally recognised social and environmental areas.

Thus:

Licensing = permission to conduct regulated business activity.

CSR = corporate contribution towards specified social and environmental objectives.

The two nevertheless intersect because responsible corporate behaviour requires both legal compliance and broader social responsibility.

Regulatory Compliance as the Foundation of Corporate Responsibility

A company cannot reasonably claim to be socially responsible while systematically violating mandatory legal requirements.

For example, a manufacturing company should first comply with requirements concerning:

- worker health and safety;
- factory licensing;
- environmental protection;
- waste management;
- labour standards;
- consumer protection;
- taxation;
- corporate reporting.

The Factories Act, 1948 contains extensive provisions concerning health, safety, welfare and working conditions in factories. It also specifically provides for approval, licensing and registration.

Therefore, CSR should be considered an **additional layer of responsibility**, rather than a substitute for legal compliance.

CSR and Environmental Responsibility

Environmental sustainability is an important component of CSR.

Companies operating manufacturing facilities can affect:

- air quality;
- water resources;
- land;
- biodiversity;
- waste generation;
- local communities.

Consequently, environmental compliance and CSR may address similar social objectives but operate through different legal mechanisms.

Environmental permissions and pollution-control requirements are generally mandatory. CSR expenditure on environmental sustainability under Schedule VII represents a distinct corporate responsibility.

This distinction is crucial because a corporation should not classify mandatory pollution-control expenditure as CSR merely because it produces environmental benefits.

CSR and Employee Welfare

Employee welfare represents another area where the distinction between statutory compliance and CSR is necessary.

Companies are legally required to comply with applicable labour and workplace requirements. The Factories Act, for example, contains provisions concerning health, safety and welfare. Therefore, compliance with minimum statutory safety requirements should not automatically be regarded as CSR expenditure.

However, programmes extending beyond ordinary legal obligations—for example, broader community health initiatives, education programmes or development interventions falling within Schedule VII—may constitute legitimate CSR activities when the statutory requirements are satisfied.

CSR and Corporate Governance

CSR is increasingly connected with corporate governance.

Effective CSR governance requires:

1. Board-level responsibility;
2. Clear CSR policy;
3. Transparent expenditure;
4. Monitoring mechanisms;
5. Appropriate implementation agencies;
6. Documentation;
7. Disclosure;
8. Impact assessment where applicable.

The statutory CSR framework therefore creates a governance structure in which social expenditure becomes subject to corporate decision-making and reporting.

The 2021 amendments strengthened this approach by introducing additional mechanisms concerning implementation, registration and impact assessment.

Major CSR Developments

A. CSR Policy Rules, 2014

The Companies (Corporate Social Responsibility Policy) Rules, 2014 operationalised Section 135.

They addressed:

- CSR policy;
- CSR Committee;
- implementation;
- monitoring;
- reporting;
- treatment of CSR activities.

The rules were notified in February 2014 along with the implementation of Section 135 and Schedule VII.

B. CSR Amendments

The CSR framework underwent several amendments between 2014 and 2022.

These amendments gradually moved CSR from a broad policy-oriented framework towards greater compliance, documentation, monitoring and accountability.

The legal framework also evolved in response to practical difficulties faced by companies and implementing agencies.

C. CSR and the 2021 Regulatory Changes

The 2021 CSR amendments were particularly significant.

One important development concerned **impact assessment**.

Specified companies were required to undertake impact assessment of eligible CSR projects through an independent agency where the prescribed conditions were fulfilled.

MCA guidance explains that impact assessment was intended to measure the social impact of CSR projects and enable companies to make better decisions regarding resource allocation.

The framework applied to companies meeting specified CSR-obligation and project-outlay conditions.

This development represented a shift:

From expenditure - based CSR → towards impact-oriented CSR.

D. CSR-1 and Implementing Agencies

The 2021 framework also strengthened the registration mechanism for entities implementing CSR activities.

The objective was to improve transparency concerning organisations receiving CSR funds and implementing CSR projects.

This was important because companies frequently undertake CSR through:

- Section 8 companies;
- registered public trusts;
- registered societies;
- other eligible implementing organisations.

Registration and documentation requirements provide greater traceability of CSR expenditure.

E. Unspent CSR Amount

The CSR framework was also strengthened concerning unspent CSR amounts.

The legal position increasingly distinguished between:

1. amounts relating to ongoing projects; and
2. amounts not relating to ongoing projects.

The treatment of unspent amounts was therefore no longer simply a matter of explaining non-spending in the Board's Report. The statutory framework introduced mechanisms concerning transfer of unspent amounts in specified circumstances.

This represented an important shift towards **financial accountability**.

F. CSR and ESG Reporting

CSR should also be considered alongside the emerging ESG reporting framework.

SEBI introduced the Business Responsibility and Sustainability Report (BRSR) framework in 2021. BRSR was designed for the top 1,000 listed entities by market capitalisation, initially on a voluntary basis for FY 2021–22 and on a mandatory basis from FY 2022–23. The framework placed greater emphasis on measurable environmental, social and governance information.

This development is significant because it expanded corporate accountability from merely reporting CSR expenditure towards reporting broader sustainability performance.

Therefore, by 2022, Indian corporate regulation was moving towards a broader architecture comprising:

CSR + Corporate Governance + Regulatory Compliance + Sustainability Reporting + ESG.

G. CSR versus Statutory Compliance

The distinction may be represented as follows:

Basis	Statutory Compliance	CSR
Nature	Mandatory	Mandatory for qualifying companies within CSR framework
Purpose	Compliance with law	Social and environmental development
Licensing	Often required	Not itself a licence
Environmental compliance	Mandatory where applicable	May include eligible sustainability projects
Employee safety	Statutory obligation	Additional eligible social initiatives
Monitoring	Government/regulators/company	Board and CSR governance mechanisms
Reporting	Statutory/regulatory reporting	CSR disclosure and reporting
Penalties	Based on respective laws	Governed by Companies Act framework
Objective	Legal compliance	Social value and sustainable

The key finding is that **CSR cannot be used as a mechanism to compensate for non-compliance with mandatory law.**

H. Corporate Licensing and Sustainable Governance

Licensing serves as a regulatory gateway.

Before conducting certain business activities, a corporation must demonstrate compliance with prescribed standards. Licensing therefore performs a preventive regulatory function.

CSR generally performs a developmental and social function.

The two can be integrated through an organisational framework:

Level 1: Legal Compliance

- Company law compliance;
- Tax compliance;
- Labour compliance;
- Environmental compliance;
- Factory licensing;
- Sectoral approvals.

Level 2: Corporate Governance

- Board oversight;
- Risk management;
- Internal controls;
- Transparency;
- Stakeholder engagement.

Level 3: CSR

- Community development;
- Education;
- Health;
- Women empowerment;
- Rural development;
- Environmental sustainability.

Level 4: Sustainability/ESG

- Environmental performance;
- Social performance;
- Governance indicators;
- Sustainability disclosure.

This four-level model provides a useful framework for understanding modern corporate responsibility.

Legal Challenges

Several challenges can be identified in the CSR framework:

Confusion between CSR and Compliance: Companies may find it difficult to distinguish CSR activities from ordinary business expenditure and mandatory compliance costs.

Measurement of Social Impact: Spending money does not necessarily guarantee social impact. The introduction of impact assessment provisions attempted to address this concern.

Monitoring of Implementing Agencies: Where CSR projects are implemented through external organisations, companies require effective due diligence and monitoring.

Regional Imbalance: CSR expenditure may be concentrated in economically developed regions or areas close to corporate operations, potentially leaving disadvantaged regions underfunded.

Administrative Complexity: Companies may face difficulties in coordinating multiple statutory requirements, licensing obligations and CSR documentation.

Transparency: Disclosure of expenditure alone may not adequately communicate the actual social outcomes of CSR projects.

Findings of the Study

The study identifies the following major findings:

1. India has established one of the most structured statutory CSR frameworks through Section 135 of the Companies Act, 2013.
2. CSR applicability is primarily determined by financial thresholds.
3. CSR is a corporate governance responsibility rather than merely philanthropic expenditure.
4. Corporate licensing and CSR are legally distinct but functionally interconnected components of responsible business.
5. Licensing and statutory compliance represent the minimum legal requirements for operating a business.

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6. CSR should not be used to classify mandatory regulatory expenditure as social responsibility expenditure.
7. The 2021 reforms strengthened accountability through mechanisms such as impact assessment and registration of implementing agencies.
8. Sustainability reporting through BRSR represented an important movement towards broader ESG accountability.
9. Effective CSR requires monitoring, documentation, transparency and measurable outcomes.
10. A sustainable corporate governance framework should integrate legal compliance, licensing, CSR and sustainability reporting.

Recommendations

a) Clear Separation of CSR and Compliance
MCA and regulatory authorities should continue providing clear guidance distinguishing mandatory statutory expenditure from CSR expenditure.

b) **Strengthening Impact Assessment**
Impact assessment should focus not merely on financial utilisation but also on measurable social outcomes.

c) **Better Monitoring of Implementing Agencies**
Companies should undertake systematic due diligence of CSR implementation partners.

d) Digital CSR Monitoring
A stronger digital reporting mechanism can improve transparency and reduce duplication of reporting.

e) Local Community Participation
Companies should involve beneficiaries and local stakeholders in designing CSR projects.

f) Integration with Sustainable Development Goals
CSR projects should be aligned, where appropriate, with the Sustainable Development Goals (SDGs).

g) Integration with ESG
CSR reporting should be increasingly coordinated with broader environmental, social and governance disclosures.

h) Corporate Compliance Framework
Companies should establish an integrated compliance framework covering:
Licensing → Statutory Compliance → CSR → ESG → Sustainability Reporting.

Conclusion

The development of CSR legislation in India represents a significant transformation in the relationship between business and society. Section 135 of the Companies Act, 2013, Schedule VII and the Companies (CSR Policy) Rules, 2014 created a statutory framework for CSR among qualifying companies. Subsequent amendments up to 2022 progressively strengthened governance, reporting, implementation and impact assessment mechanisms.

Corporate licensing, meanwhile, performs a different but complementary function. Licences, registrations, approvals and regulatory permissions establish the legal conditions under which corporations may operate. The Factories Act, 1948, for example, expressly provides for approval, licensing and registration of factories and contains extensive requirements concerning health, safety and welfare.

The central argument of this study is that **CSR cannot replace regulatory compliance, and regulatory compliance alone cannot constitute comprehensive corporate social responsibility**. A corporation that follows licensing requirements but ignores community welfare may be legally compliant without being socially responsible. Conversely, a company cannot justify non-compliance with labour, environmental or licensing laws by spending money on CSR projects.

The appropriate approach is therefore an integrated model of corporate responsibility consisting of **legal compliance, licensing, corporate governance, CSR and sustainability reporting**.

By the end of 2022, India's regulatory framework was already moving in this direction. The introduction of BRSR and the strengthening of CSR impact assessment demonstrated an emerging emphasis on measurable sustainability and accountability rather than merely recording corporate expenditure.

The future of corporate responsibility in India therefore lies not simply in increasing CSR expenditure but in ensuring that corporate activities are **legally compliant, socially responsible, environmentally sustainable, transparent and measurable**.

Scope for Future Research

Future researchers may undertake empirical studies examining:

- CSR compliance among listed companies;
- Relationship between CSR expenditure and profitability;
- CSR and corporate reputation;
- CSR and employee satisfaction;
- CSR and rural development;
- CSR and women empowerment;
- CSR and environmental sustainability;
- Impact of CSR on stakeholder satisfaction;
- Corporate licensing and ease of doing business;
- Comparative CSR compliance across Indian states;
- CSR practices among MSMEs and large corporations.

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