INTERNATIONAL JOURNAL OF ECONOMIC SOCIAL SCIENCE AND MANAGEMENT LAW
Peer Reviewed, Referred & Indexed Journal
E-ISSN:3070-0558
VOL.4,NO.4 (2023)

Corporate Social Responsibility as a Regulatory Obligation: Its Implications for Corporate Licensing and Business Operations in India

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

Abstract

Corporate Social Responsibility (CSR) has evolved in India from a predominantly voluntary concept of responsible business conduct into a statutory obligation applicable to specified classes of companies. The enactment of the Companies Act, 2013 marked a significant development in corporate law by introducing a dedicated statutory framework for CSR under Section 135, read with Schedule VII and the Companies (Corporate Social Responsibility Policy) Rules, 2014. Subsequent amendments, particularly those operationalised in 2021, strengthened the compliance, spending, disclosure and accountability framework.

This paper critically examines CSR as a regulatory obligation and explores its implications for corporate licensing and business operations in India up to December 2023. It argues that CSR compliance does not, by itself, constitute a universal statutory condition for obtaining or retaining a corporate or business licence. However, CSR obligations form part of the wider corporate regulatory environment and may indirectly influence corporate governance, disclosure, regulatory reputation, stakeholder confidence and the manner in which companies conduct their operations. The study analyses Section 135 of the Companies Act, 2013, Schedule VII, the CSR Rules, relevant amendments, regulatory guidance and the emerging compliance-oriented approach. It further examines whether CSR obligations should be connected more explicitly with regulatory approvals and the "social licence to operate". The paper concludes that Indian law should preserve the distinction between statutory licensing and social legitimacy while strengthening transparency, accountability and enforcement of CSR obligations.

Keywords: *Corporate Social Responsibility, Companies Act, 2013,Corporate Licensing, Corporate Governance, Regulatory Compliance,Social License to Operate, Corporate Accountability.*

Introduction

The traditional understanding of a company has primarily been associated with profit-making, capital accumulation and protection of shareholder interests. Contemporary corporate law, however, increasingly recognises that corporate activity has consequences extending beyond shareholders to employees, consumers, communities, the environment and other stakeholders.

Corporate Social Responsibility represents one of the most significant developments in this changing conception of corporate responsibility. In India, CSR occupies a distinctive position because Parliament transformed CSR from an essentially voluntary corporate practice into a statutory obligation for companies meeting prescribed financial thresholds.

Section 135 of the Companies Act, 2013 applies to companies satisfying the specified net-worth, turnover or net-profit criteria. Such companies are required to establish the prescribed CSR governance mechanism, formulate CSR policy and comply with statutory spending and reporting requirements.

The Companies (Corporate Social Responsibility Policy) Rules, 2014 provide the operational framework for implementation of Section 135. The Rules prescribe requirements relating to CSR policy, implementation, expenditure, reporting and disclosure.

The legal significance of CSR was further strengthened by amendments that became effective in 2021. The amended framework introduced more detailed mechanisms relating to unspent CSR amounts, ongoing projects, accountability and penalties.

This development raises an important question for corporate law:

Can CSR be understood merely as an internal corporate obligation, or does it form part of the broader regulatory framework governing a company's right to conduct business?

Statement of the Problem

Corporate operations in India are subject to numerous statutory licences, registrations, permissions and regulatory approvals. Depending upon the sector, businesses may require approvals under company law, environmental law, labour law, tax law, industrial regulations and sector-specific legislation.

At the same time, Section 135 imposes CSR obligations on qualifying companies.

However, the relationship between these two regulatory dimensions remains legally underexplored.

The Companies Act does not expressly state that failure to comply with CSR obligations automatically results in:

1. cancellation of incorporation;
2. suspension of a business licence;
3. cancellation of an industrial licence;
4. prohibition on carrying on business; or
5. withdrawal of sectoral regulatory approval.

Consequently, equating CSR non-compliance with loss of corporate licence would be legally inaccurate.

The real research problem is therefore whether CSR should be understood as an **independent statutory compliance obligation** or as an element of the broader regulatory framework influencing the legitimacy and sustainability of corporate operations.

Objectives of the Study

The main objectives are:

1. To examine the statutory and regulatory framework governing CSR in India.
2. To analyse the legal character of CSR under Section 135 of the Companies Act, 2013.
3. To examine the relationship between CSR compliance and corporate licensing.
4. To analyse the legal consequences of CSR non-compliance.
5. To examine the implications of CSR compliance for corporate governance and business operations.
6. To critically evaluate the effectiveness of CSR enforcement mechanisms up to 2023.

7. To distinguish statutory corporate licensing from the broader concept of social licence to operate.
8. To suggest legal and regulatory reforms for strengthening corporate accountability.

Hypotheses

For a doctrinal law research paper, **research propositions** are preferable to statistical hypotheses.

H1

CSR under Section 135 of the Companies Act, 2013 constitutes a statutory corporate obligation rather than merely a voluntary philanthropic activity.

H2

CSR non-compliance does not automatically result in cancellation or suspension of a company's statutory business licence, but it can attract specified legal and financial consequences and affect the company's broader regulatory accountability.

H3

CSR compliance can indirectly influence corporate operations through corporate governance, disclosure, stakeholder confidence and regulatory reputation.

H4

The concept of social licence to operate provides a useful complementary framework for understanding corporate legitimacy, but it should not be treated as equivalent to a statutory business licence.

Research Methodology

The present study adopts a **doctrinal, analytical and descriptive legal research methodology** to examine Corporate Social Responsibility (CSR), corporate governance and regulatory licensing within the Indian legal framework. The research is primarily qualitative and doctrinal in nature and relies on the systematic examination and interpretation of relevant legal and regulatory materials. The study analyses statutory provisions, delegated legislation, government notifications, regulatory circulars, official CSR guidance, judicial decisions, committee reports, legal literature and corporate regulatory frameworks. The principal primary sources include the Companies Act, 2013, particularly Section 135 and Schedule VII; Companies (Corporate Social Responsibility Policy) Rules, 2014; Companies (Amendment) Act, 2019 and 2020; Companies (CSR Policy) Amendment Rules, 2020, 2021 and 2022; and relevant MCA circulars, notifications and FAQs. Secondary sources comprise books on corporate law and governance, research articles, law journals, policy documents, legal commentaries, committee reports and literature concerning responsible business conduct. The analytical approach is employed to assess the development, effectiveness and regulatory implications of CSR obligations, while the descriptive approach explains the evolution and structure of the applicable legal framework. The scope of the study is confined to the Indian legal and regulatory framework prevailing up to 31 December 2023**,** with emphasis on CSR compliance, corporate accountability and its relationship with corporate governance and regulatory requirements.

Evolution of CSR in India

CSR in India has historical roots in philanthropy, trusteeship and community-oriented business practices. Traditionally, corporate philanthropy was largely voluntary.

The modern regulatory approach developed through the evolution of corporate governance and responsible business principles.

The Companies Act, 2013 represented a major transformation by introducing Section 135.

Section 135 applies to companies meeting any of the prescribed thresholds relating to:

- net worth of ₹500 crore or more;
- turnover of ₹1,000 crore or more; or
- net profit of ₹5 crore or more.

Such companies are brought within the CSR framework.

The legislation therefore adopted a threshold-based model, rather than imposing CSR obligations uniformly upon every company.

Statutory Framework of CSR

Section 135 of the Companies Act, 2013

Section 135 is the central statutory provision governing CSR.

It provides for:

- constitution of a CSR mechanism;
- formulation of CSR policy;
- recommendation of CSR expenditure;
- monitoring of CSR policy;
- Board approval;
- implementation of CSR activities;
- prescribed expenditure; and
- reporting and accountability.

The statutory framework requires qualifying companies to spend at least 2% of the average net profits of the preceding three financial years, subject to the provisions of Section 135.

CSR Committee and Board Responsibility

Section 135 originally contemplated a CSR Committee consisting of three or more directors, including at least one independent director, subject to statutory exceptions.

The CSR Committee performs important functions, including:

- formulation and recommendation of CSR policy;
- recommendation of expenditure;
- monitoring CSR policy.

The Board retains ultimate responsibility for approving the policy and ensuring that CSR activities are undertaken.

This structure is significant from a corporate law perspective because CSR is not merely an external charitable activity. It is incorporated into the corporate governance architecture.

Thus, CSR becomes a matter of Board-level responsibility.

Schedule VII and Permissible CSR Activities

CSR expenditure must relate to activities falling within the areas specified in Schedule VII.

These areas include, among others:

- eradication of hunger and poverty;
- education;
- gender equality;
- environmental sustainability;
- protection of national heritage;
- rural development;
- healthcare;
- sanitation;
- contribution to specified government funds;
- development of rural and backward areas; and
- other prescribed social objectives.

The MCA has clarified that Schedule VII should be interpreted in a manner that captures the essence of the specified subjects.
This approach demonstrates that CSR law seeks to connect corporate resources with broader public and developmental objectives.

CSR Rules, 2014

The Companies (CSR Policy) Rules, 2014 provide the detailed regulatory framework for implementing Section 135.
The Rules address:

- CSR policy;
- implementation;
- expenditure;
- reporting;
- disclosure;
- administrative overheads;
- CSR implementing agencies; and
- monitoring.

Rule 6, for example, requires CSR policy to identify CSR projects and programmes and specify modalities of implementation and monitoring.
The regulatory structure therefore converts the broad statutory obligation into operational compliance requirements.

The 2021 CSR Amendments and Strengthening of Accountability

The 2021 amendments represent a significant stage in the evolution of CSR regulation.
The amended framework introduced clearer definitions and compliance requirements, including provisions concerning:

- ongoing projects;
- unspent CSR amounts;
- CSR implementing agencies;
- impact assessment;
- administrative overheads; and
- enhanced reporting.

The amended Rules define an "ongoing project" as a multi-year project undertaken to fulfil CSR obligations within the prescribed framework.
The MCA subsequently issued General Circular No. 14/2021 containing FAQs to clarify implementation of the amended CSR framework. The Ministry specifically noted that the amendments sought to strengthen the CSR ecosystem through improved disclosures and simplified compliance.

CSR as a Regulatory Obligation

The most important legal transformation is the movement of CSR from **voluntary responsibility to statutory obligation**.
However, the statutory nature of CSR should not be misunderstood.
The law does not require every company to undertake CSR.
Instead, CSR becomes mandatory when the company falls within the thresholds established under Section 135.
This produces a regulatory model based upon:

Corporate size → statutory applicability → CSR governance → prescribed expenditure → disclosure → monitoring → enforcement

The legal character of CSR can therefore be described as **mandatory but threshold-based**.

CSR and Corporate Licensing: The Legal Nexus

This is the central issue of the research.
A distinction must be drawn between:

A. Corporate registration/incorporation

The legal process through which a company obtains corporate personality under the Companies Act.

B. Business/sectoral licensing

Permissions required to undertake particular regulated activities.

C. CSR compliance

The statutory obligation applicable to qualifying companies under Section 135.
These three concepts should not be treated as interchangeable.
Section 135 does not expressly provide that a company's incorporation or licence automatically becomes invalid upon CSR default.
Therefore, the proposition that:

"CSR non-compliance leads to cancellation of corporate licence"
would be too broad and unsupported by the statutory framework.
Instead, the legal relationship is better understood as **indirect and regulatory**.

CSR and Business Operations

CSR can influence business operations in several ways.

A. Corporate Governance

CSR becomes a Board-level responsibility.
This requires companies to establish internal systems for:

- CSR planning;
- budgeting;
- monitoring;
- documentation;
- implementation; and
- reporting.

Consequently, CSR becomes integrated into corporate governance.

B. Financial Planning

Qualifying companies must account for CSR expenditure within their financial and strategic planning.

C. Compliance Management

Companies must establish mechanisms to ensure:

- correct identification of CSR activities;
- proper utilisation of funds;
- documentation;
- disclosure;

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- monitoring; and
- treatment of unspent amounts.

D. Stakeholder Relations

CSR activities may influence relationships with:

- local communities;
- employees;
- consumers;
- investors;
- regulators;
- civil society organisations.

E. Corporate Reputation

Although reputation is not equivalent to legal licensing, responsible corporate conduct can influence stakeholder perceptions and the company's ability to maintain social acceptance.

CSR Non-Compliance and Legal Consequences

The 2021 amendments significantly strengthened the consequences associated with failure to comply with CSR spending provisions.

Section 135 provides mechanisms relating to unspent CSR amounts and prescribed transfers.

For ongoing projects, unspent amounts are required to be transferred to an Unspent CSR Account and utilised within the statutory period; failure to comply can result in transfer to a specified fund and penalties.

The amended framework therefore moves beyond the earlier model in which non-spending was primarily addressed through disclosure of reasons.

This represents an important shift from:

"comply or explain"

towards:

"comply, account and face statutory consequences."

CSR and Corporate Accountability

CSR introduces an additional dimension of accountability into corporate law.

Traditional corporate accountability has often focused on:

- shareholders;
- creditors;
- financial reporting;
- directors; and
- statutory regulators.

CSR expands this framework by giving greater significance to communities and broader social interests.

The Ministry's CSR framework recognises the importance of responsible business conduct and stakeholder-oriented corporate behaviour.

Thus, CSR contributes to a transition from a narrowly shareholder-oriented model towards a broader stakeholder-oriented model of corporate governance.

CSR and the "Social Licence to Operate"

The concept of **social licence to operate** is particularly relevant to this research.

A statutory licence is granted by a competent governmental authority under law.

A social licence, by contrast, represents continuing acceptance and legitimacy granted informally by stakeholders and affected communities.

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Therefore:

Statutory Licence	Social Licence
Created by law	Created through social acceptance
Granted by competent authority	Developed through stakeholder relationships
Legally enforceable	Primarily social/reputational
Based on statutory requirements	Based on trust and legitimacy
Can be suspended/revoked under law	Can be weakened or withdrawn through social opposition

CSR can strengthen the second form of legitimacy.

This distinction is important because CSR should not be treated as a substitute for statutory licensing. Rather, CSR may help a company maintain the social conditions necessary for sustainable business operations.

Environmental and Community Dimensions

The relationship between CSR and licensing becomes particularly significant for industries whose operations have substantial social or environmental effects.

Examples include:

- mining;
- energy;
- infrastructure;
- manufacturing;
- construction;
- pharmaceuticals; and
- large-scale industrial projects.

In such sectors, businesses may require numerous environmental, industrial and sectoral permissions.

CSR may contribute to:

- community development;
- education;
- healthcare;
- livelihood development;
- environmental sustainability;
- rural infrastructure.

Consequently, CSR may indirectly reduce social conflict and improve stakeholder engagement.

However, CSR expenditure cannot legally substitute for mandatory environmental clearance, consent, safety approval or other statutory permissions.

This distinction is essential from the rule-of-law perspective.

CSR and Sustainable Business Operations

CSR should increasingly be viewed as part of a company's long-term sustainability strategy.

A company that systematically engages with local communities may potentially reduce:

- stakeholder conflict;
- reputational risks;
- community opposition;
- operational disruptions;
- litigation risks.

However, these are indirect consequences rather than statutory consequences automatically flowing from Section 135.

Therefore, the relationship may be represented as:

CSR compliance → stakeholder engagement → corporate legitimacy → reduced social risk → operational sustainability

rather than:

CSR non-compliance → automatic licence cancellation.

CSR and Regulatory Governance

Corporate regulation in India increasingly reflects a governance model in which companies are expected not only to comply with economic and financial requirements but also to consider social and environmental consequences.

The CSR framework contributes to this development.

The National Guidelines and subsequent responsible-business frameworks have emphasised disclosure of economic, social and environmental impacts as an important aspect of responsible business conduct.

CSR therefore forms part of a broader movement towards:

- transparency;
- accountability;
- sustainability;
- stakeholder participation;
- responsible investment; and
- ethical corporate governance.

Critical Legal Analysis

Despite the significant development of CSR law, several legal concerns remain.

A. Absence of Direct Licensing Consequence

The legislation does not establish a general rule whereby CSR default results in suspension or cancellation of a corporate licence.

This preserves proportionality between the nature of the violation and the legal consequence.

B. Multiple Regulatory Frameworks

Companies may simultaneously be subject to:

- Companies Act;
- environmental legislation;
- labour laws;
- tax laws;
- sectoral regulations;
- local laws.

CSR operates within this larger regulatory ecosystem.

C. Enforcement Challenges

Effective CSR regulation depends upon:

- accurate disclosure;
- monitoring;
- utilisation of funds;

- Board accountability;
- regulatory oversight.

Formal compliance does not necessarily guarantee meaningful social impact.

D. Possibility of "Box-Ticking"

A company may satisfy expenditure requirements without necessarily generating substantial social outcomes.

Therefore, the law must focus not only on expenditure but also on:

- impact;
- transparency;
- community participation;
- outcome measurement.

E. CSR versus Statutory Obligations

The 2021 Rules specifically exclude activities undertaken to fulfil other statutory obligations from the definition of CSR.

This is legally significant.

A company cannot simply classify ordinary statutory compliance expenditure as CSR expenditure.

Need for a Distinct Conceptual Framework

The present legal framework would benefit from clearly distinguishing three layers:

Layer I – Statutory Compliance

Compliance with:

- Section 135;
- CSR Rules;
- Schedule VII;
- reporting requirements.

Layer II – Regulatory Compliance

Compliance with:

- environmental permissions;
- labour requirements;
- safety requirements;
- sector-specific licences.

Layer III – Social Legitimacy

Relationship with:

- local communities;
- consumers;
- employees;
- civil society;
- investors.

CSR primarily operates in **Layer I**, but it can have consequences for **Layers II and III** through governance, stakeholder relations and corporate legitimacy.

Suggested Legal Reforms

The following reforms may strengthen CSR regulation.

a) Integrated CSR Compliance Disclosure

CSR compliance could be more systematically integrated into corporate regulatory disclosures.

b) Sector-Specific CSR Impact Assessment

Companies operating in environmentally or socially sensitive sectors could be required to provide stronger evidence of CSR impact.

c) Community Participation

Large CSR projects could include mechanisms for participation by affected communities.

d) Strengthened Impact Assessment

Impact assessment should focus on actual social outcomes rather than merely expenditure.

e) Regulatory Coordination

MCA and sectoral regulators could develop coordinated disclosure systems.

f) Protection Against Greenwashing and Social-Washing

Companies should not be permitted to use CSR reporting primarily as a reputational tool without demonstrable social outcomes.

g) Maintain the Distinction between Licence and Social Licence

The law should not unnecessarily convert CSR into a universal licensing condition.

Instead, it should recognise social legitimacy as an additional dimension of sustainable corporate governance.

Findings

The research produces the following principal findings:

1. CSR in India has acquired a **statutory character** for companies covered by Section 135.
2. The Companies Act, 2013 created a comprehensive legal framework for CSR.
3. CSR is integrated into corporate governance through Board-level responsibilities.
4. The 2021 amendments strengthened CSR accountability and enforcement.
5. CSR non-compliance does not automatically result in cancellation of a corporate/business licence.
6. CSR nevertheless forms part of the broader corporate regulatory environment.
7. CSR can influence business operations indirectly through governance, stakeholder confidence and corporate reputation.
8. The concept of social licence to operate provides a useful theoretical framework for understanding corporate legitimacy.
9. Statutory licence and social licence must remain legally distinct.
10. Future CSR regulation should emphasise impact, transparency and accountability rather than expenditure alone.

Conclusion

The evolution of CSR under Indian corporate law represents a significant shift in the relationship between business and society. Section 135 of the Companies Act, 2013 transformed CSR from a largely voluntary corporate practice into a statutory obligation for qualifying companies. The subsequent amendments, particularly those effective from 2021, strengthened the compliance and accountability architecture.

However, CSR should not be inaccurately equated with corporate licensing. Indian company law does not establish a general rule that failure to comply with Section 135 automatically results in cancellation or suspension of a company's licence to conduct business. Instead, CSR functions as a distinct statutory compliance obligation operating within the larger corporate regulatory framework.

Its importance for business operations nevertheless extends beyond expenditure. CSR affects corporate governance, Board responsibility, disclosure, stakeholder relationships and corporate legitimacy. In sectors where corporate activities have substantial social or environmental consequences, responsible CSR practices may contribute to maintaining community confidence and operational stability.

The concept of **social licence to operate** therefore provides a useful complementary perspective. While a statutory licence derives its authority from the State, social licence is based on continued acceptance by stakeholders and communities. CSR can contribute to such acceptance, but it cannot replace mandatory statutory permissions.

The appropriate legal approach is consequently not to make CSR a universal precondition for corporate licensing, but to strengthen the integration of **CSR compliance, corporate governance, transparency, regulatory accountability and sustainable business conduct**.

The Indian CSR regime, as it stood up to 2023, demonstrates a clear movement from voluntary philanthropy towards regulated corporate responsibility. The future challenge for Indian corporate law is to move from **mere compliance with CSR expenditure requirements towards demonstrable social impact and accountable corporate citizenship**.

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