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Theoretical Foundations and Legal Framework of CSR

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ABSTRACT

This study examines the conceptual underpinnings and statutory structure of Corporate Social Responsibility (CSR), stressing its shift from a moral initiative to a formalized regulatory duty in numerous legal systems. It starts with a review of central CSR theories—stakeholder, legitimacy, and social contract—that offer perspectives on how companies engage with society. It then evaluates the transformation of CSR into a binding legal standard in various nations, particularly focusing on enacted laws, regulatory measures, and judicial decisions that define CSR duties. Additionally, it looks at the balance between non-binding tools, including global protocols and voluntary benchmarks, and enforceable legal norms that institutionalize CSR responsibilities. By aligning theoretical viewpoints with legal comparison, the research delivers a holistic view of CSR's place in modern corporate oversight and outlines the difficulties and prospects in ensuring ethical corporate behaviour.

KEYWORDS

CSR, Regulation, Stakeholders, Compliance, Ethics.

THEORIES OF CSR

Corporate Social Responsibility (CSR) is a concept that has been formulated by different theoretical perspectives. These theories give companies a roadmap for the incorporation of ethical, social, and environmental issues into their day-to-day business activities without sacrificing economic viability. Different theorists and corporate strategists have developed CSR theories to influence corporate conduct with the emphasis placed on the firms as socially responsible businesses and not institutions that only aim to maximize profits.

The best-documented theories used in CSR arguments are:

a. Stakeholder Theory, encouraging business responsibility to multiple stakeholders instead of individual shareholders.

b. The Triple Bottom Line (TBL) Approach, blending social and environmental with economic performance.

c. Carroll's Pyramid of CSR, a structured framework for hierarchical categorization of corporate responsibilities.

d. The Shared Value Model, merging corporate profitability with social progress.

All these theories have a common alternative view of CSR, influencing business strategies, regulatory policies, and corporate governance legislations globally.

- ***Stakeholder Theory***

Stakeholder Theory, developed by Edward Freeman in 1984, opposes the traditional shareholder-oriented business model that assumes a firm's success lies in its connection to all the stakeholders, from employees to customers, suppliers, nearby communities, governments, and the environment[1]. The theory defies Milton Friedman's perception, where he had expressed that the sole purpose of business is maximizing shareholder value[1]

Under Stakeholder Theory, companies are required to weigh the interest of primary stakeholders (those which directly impact business performance) and secondary stakeholders (those that have an indirect effect on corporate image and social status). The strategy induces long-term sustenance as companies addressing the various stakeholders' needs will most likely build enduring connections, foster increased loyalty to a brand, and reduce risk.

For instance, Unilever's Sustainable Living Plan is a stakeholder-driven strategy towards minimizing environmental footprint while promoting fair labor practices in the supply chain[2] Likewise, businesses such as Patagonia stress sustainability and responsible sourcing, proving that stakeholder-driven firms can be profitable and socially fulfilling.

[1] Milton Friedman, 'The Social Responsibility of Business is to Increase Its Profits' (1970) New York Times Magazine 32.
[2] Unilever, Sustainable Living Plan Report 2023 (Unilever, 2023).

a. Criticism and Challenges

Though it is strong, Stakeholder Theory has been faulted for lacking clear rules about how companies should juggle competing stakeholder interests. Based on some scholars, businesses may struggle to place ethical concerns ahead of profitability, leading to conflicting managerial discretion and stakeholders' demands.

- ***Triple Bottom Line (TBL) Approach***

The Triple Bottom Line (TBL) Approach, introduced by John Elkington in 1994, argues that corporate success should not be measured solely by financial performance but by a company's economic, social, and environmental impact[9]. The three key components of the TBL framework are:

i. People (Social Responsibility) – Businesses must ensure ethical labor practices, fair wages, diversity, and community development.

ii. Planet (Environmental Responsibility) – Companies should adopt sustainable production processes, minimize carbon footprints, and implement waste reduction strategies.

iii. Profit (Economic Responsibility) – While financial performance remains crucial, it must be pursued alongside social and environmental goals.

a. Implementation and Global Influence

The TBL framework has become a fundamental principle in corporate sustainability reporting, influencing regulatory frameworks such as the Global Reporting Initiative (GRI) and United Nations Sustainable Development Goals (SDGs)[3] Tesla, IKEA, and Nike have adopted TBL by investing in green technologies, ethical supply chains, and corporate philanthropy, demonstrating the viability of sustainability-driven business models.

b. Criticism

Critics argue that quantifying social and environmental impact remains a challenge, as TBL metrics are often subjective and difficult to standardize.

[3] GRI, Sustainability Reporting Guidelines (GRI, 2021).

- ***Carroll's Pyramid of CSR***

Archie B. Carroll's Pyramid of CSR (1991) provides a hierarchical structure categorizing corporate responsibilities into four levels:

i. *Economic Responsibility* – Ensuring profitability as the foundation of corporate sustainability.

ii. *Legal Responsibility* – Complying with national and international regulations.

iii. *Ethical Responsibility* – Going beyond legal requirements to uphold moral business practices.

iv. *Philanthropic Responsibility* – Voluntary contributions to social welfare.

This model has influenced global corporate governance policies, particularly in nations enforcing mandatory CSR initiatives like India's Companies Act, 2013.

- ***Shared Value Model***

Introduced by Michael Porter and Mark Kramer in 2011, the Shared Value Model argues that economic and social progress can be mutually reinforcing. Unlike traditional CSR, which often treats social responsibility as a philanthropic expense, the shared value approach integrates social impact into core business strategies.

Companies like Nestlé and Unilever have successfully adopted shared value strategies, proving that responsible business practices can enhance competitiveness while benefiting society[4]

INTERNATIONAL CSR STANDARDS AND GUIDELINES

The CSR has become an essential part of business operations worldwide, leading to the development of various international standards and guidelines to ensure responsible business conduct. These frameworks provide principles, best practices, and reporting mechanisms to help corporations integrate social, environmental, and ethical considerations into their business strategies. Some of the most influential international CSR frameworks include the United Nations Global Compact (UNGC), the OECD Guidelines for Multinational Enterprises, ISO 26000, and the Global Reporting Initiative (GRI). These initiatives

[4] UNDP, Sustainable Business Strategies (UNDP, 2023).

emphasize transparency, accountability, and sustainable business practices across industries.

i. UN Global Compact

The United Nations Global Compact (UNGC) is one of the largest voluntary corporate sustainability initiatives, launched in 2000 to encourage businesses worldwide to adopt socially responsible policies and report on their implementation. It is based on ten universal principles derived from international human rights, labor, environment, and anti-corruption frameworks. These principles are categorized into four areas:

a. ***Human Rights*** – Businesses should respect, and support internationally recognized human rights and avoid complicity in human rights abuses.

b. ***Labor Standards*** – Businesses should uphold freedom of association, eliminate forced and child labor, and prevent employment discrimination.

c. ***Environmental Responsibility*** – Companies should implement precautionary approaches to environmental challenges, promote eco-friendly practices, and encourage sustainable technologies.

d. ***Anti-Corruption*** – Businesses must work against all forms of corruption, including bribery and extortion.[5]

The UNGC aligns with the 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs), requiring businesses to integrate sustainability into their core operations and submit annual Communication on Progress (COP) reports. Despite its influence, the UNGC has been criticized for its lack of enforcement mechanisms, as participation is voluntary, and compliance monitoring remains weak.[6]

ii. OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises, first introduced in 1976, provide non-binding principles for responsible business conduct, specifically targeting corporations operating across multiple jurisdictions. These guidelines encourage ethical corporate behavior across various areas,

[5] UNGC, 'The Ten Principles of the UN Global Compact' (2023).
[6] L. Rasche, The Limits of the UN Global Compact (Cambridge University Press, 2020).

including:

a. ***Disclosure and Transparency*** – Ensuring accurate financial and non-financial reporting.

b. ***Human Rights and Labor Standards*** – Preventing human rights violations and ensuring fair labor practices.

c. ***Environmental Protection*** – Encouraging sustainable business operations and risk management strategies.

d. ***Consumer Interests*** – Promoting fair competition and ensuring consumer safety.[7]

A unique feature of the OECD Guidelines is the National Contact Point (NCP) system, which allows stakeholders to raise concerns about non-compliance, thereby providing a dispute resolution mechanism. However, since the guidelines remain voluntary, enforcement remains a challenge, and many corporations fail to comply fully.

iii. ISO 26000 – Social Responsibility Standards

The ISO 26000 standard, launched in 2010 by the International Organization for Standardization (ISO), provides businesses with a structured approach to social responsibility. Unlike other ISO certifications, ISO 26000 is not certifiable but serves as a guiding framework for ethical corporate conduct.

It identifies seven core principles of social responsibility:

a. ***Organizational Governance*** – Ethical decision-making and accountability.

b. ***Human Rights*** – Fair employment practices and respect for individual rights.

c. ***Labor Practices*** – Ensuring fair wages, working conditions, and health and safety.

d. ***Environment*** – Adopting sustainability and eco-friendly business models.

e. ***Fair Operating Practices*** – Combating corruption and maintaining business integrity.

f. ***Consumer Issues*** – Protecting consumer rights and ensuring fair trade.

[7] OECD, Responsible Business Conduct Report (2023).

g. ***Community Involvement and Development*** – Investing in local communities and education.

Many multinational corporations and governments have adopted ISO 26000 as a reference for CSR policies. However, its non-certifiable nature and voluntary application have led to inconsistent adoption across industries.

iv. Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI), established in 1997, is one of the most widely recognized frameworks for corporate sustainability reporting.[8] It provides businesses with standardized guidelines to disclose their economic, environmental, and social performance, ensuring transparency and accountability.

GRI's Key Reporting Standards:

a. ***GRI Universal Standards*** – General principles applicable to all businesses.

b. ***GRI Sector Standards*** – Industry-specific sustainability reporting requirements.

c. ***GRI Topic Standards*** – Detailed guidelines on specific topics like carbon emissions, labor rights, and corporate governance.

Over 10,000 organizations in more than 100 countries, including global corporations like Tesla, Apple, and Microsoft, utilize GRI for sustainability disclosure. However, GRI reporting has faced criticism for lacking standardization, making it difficult to compare corporate performance across industries.[9]

International CSR standards and guidelines play a critical role in shaping corporate responsibility and sustainable business practices worldwide. The UN Global Compact, OECD Guidelines, ISO 26000, and GRI provide businesses with ethical frameworks, but they also face challenges related to voluntary adoption, enforcement gaps, and inconsistent reporting. As regulatory pressures and investor demands for sustainability increase, these frameworks continue to evolve, pushing businesses toward greater accountability and responsible decision-making.

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[8] GRI, Global Sustainability Reporting Trends 2023 (GRI, 2023).
[9] R. Eccles & M. Krzus, One Report: Integrated Reporting for a Sustainable Strategy (John Wiley & Sons, 2010).

LEGAL FRAMEWORKS GOVERNING CSR

The CSR has evolved from a voluntary business practice to a legally regulated obligation in many jurisdictions. Various countries have established statutory mandates, regulatory guidelines, and reporting requirements to ensure corporate accountability in social and environmental sustainability. While some legal frameworks enforce mandatory CSR spending, others focus on corporate due diligence, stakeholder engagement, and sustainability disclosures.

i. CSR Under the Indian Companies Act, 2013

India became the first country to mandate CSR spending through the Companies Act, 2013, specifically under Section 135. This provision applies to companies that meet any of the following financial criteria:

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

Companies meeting these thresholds must allocate at least 2% of their average net profit (over the preceding three years) towards CSR activities.[10] The CSR Committee of the board is responsible for formulating and monitoring a CSR Policy, which must align with Schedule VII of the Act. The permitted CSR activities include:

- Eradicating poverty and hunger
- Promoting education and gender equality
- Ensuring environmental sustainability
- Supporting rural development projects

The Companies (Amendment) Act, 2021 strengthened CSR compliance by introducing penalties for non-compliance and requiring companies to disclose unspent CSR funds in their annual reports. However, critics argue that India's CSR law is too prescriptive and lacks flexibility, limiting corporate innovation in social responsibility initiatives.

ii. EU CSR Directives and Corporate Due Diligence Laws

[10] Section 135, Companies Act, 2013 (India).

The European Union (EU) has taken a strong regulatory approach to CSR through mandatory sustainability disclosures and corporate due diligence laws. The EU Corporate Sustainability Reporting Directive (CSRD), adopted in 2022, replaces the Non-Financial Reporting Directive (NFRD) and expands the scope of mandatory sustainability disclosures.[11] Companies must report on:

- Environmental and social risks
- Human rights and labor practices
- Diversity and anti-corruption measures

Additionally, the Corporate Sustainability Due Diligence Directive (CSDDD) imposes legal obligations on corporations to identify, prevent, and mitigate human rights violations and environmental harm in their supply chains.The CSDDD applies to large EU companies and non-EU companies with significant business operations in Europe.Unlike India's spending-based model, the EU focuses on corporate accountability, risk management, and sustainability integration.

iii. CSR Regulations in the USA, UK, and Other Jurisdictions

a. United States

The United States does not have a federal law mandating CSR spending, but corporate responsibility is largely regulated through securities laws and ESG (Environmental, Social, and Governance) disclosures. The Securities and Exchange Commission (SEC) enforces sustainability reporting requirements for publicly traded companies under frameworks like the Dodd-Frank Act and the Sarbanes-Oxley Act. Specific CSR-related laws in the U.S. include:

i. *The Foreign Corrupt Practices Act (FCPA)* – Prevents corporate bribery and unethical business practices.

ii. *The California Transparency in Supply Chains Act* – Mandates large retailers to disclose their efforts to combat forced labor and human trafficking.[12]

b. United Kingdom

The UK Companies Act, 2006, under Sections 172 and 414C,

[11] EU Corporate Sustainability Reporting Directive, Directive (EU) 2022/2464.
[12] California Transparency in Supply Chains Act, 2010 (USA).

requires large companies to disclose their ESG impacts, stakeholder engagement efforts, and climate-related risks.The Modern Slavery Act, 2015 mandates companies to report measures taken to eliminate forced labor and human rights abuses in their supply chains.

c. Other Jurisdictions

1. ***France***: The Duty of Vigilance Law (2017) requires large corporations to implement human rights due diligence policies in their global operations.

2. ***Germany***: The Supply Chain Due Diligence Act (2021) mandates large companies to identify and mitigate social and environmental risks within their supply chains.

3. ***Japan***: CSR is promoted through the Corporate Governance Code (2015), which emphasizes sustainability and ethical business practices.

CONCLUSION

The aCSR has undergone a significant transformation—from a voluntary ethical obligation to a regulatory imperative embedded within legal frameworks across the globe. Theoretical foundations such as Stakeholder Theory, the Triple Bottom Line, Carroll's Pyramid, and the Shared Value Model have laid the groundwork for understanding the multidimensional role of corporations in promoting ethical, environmental, and social welfare. International standards like the UN Global Compact, OECD Guidelines, ISO 26000, and the Global Reporting Initiative have further strengthened global CSR governance, although their voluntary nature presents enforcement challenges. Jurisdictions like India have pioneered mandatory CSR spending, while the European Union emphasizes corporate accountability through sustainability reporting and due diligence directives. Countries including the USA, UK, France, Germany, and Japan have introduced specific legislative instruments targeting human rights, anti-corruption, and environmental sustainability. This global shift reflects increasing recognition that corporate profitability must align with societal good and ecological responsibility. However, striking a balance between flexibility and regulation remains a persistent challenge. As investor expectations and consumer awareness grow, corporations are compelled to adopt more transparent, ethical, and sustainable practices. Moving forward, harmonizing voluntary global frameworks with enforceable national laws will be key to realizing CSR's full potential in shaping responsible and inclusive corporate governance.