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THE LEGAL FRAMEWORK OF CORPORATE SOCIAL RESPONSIBILITY IN THE FAST FASHION INDUSTRY: AN ANALYSIS

-Mridula Royan. S, LLM in Corporate and Commercial Law, School of Law, Christ Deemed to be University, Bangalore, India.

ABSTRACT

The fast fashion industry, known for its speedy production cycles and global supply chains, operates within a framework characterized by a constant push for affordable clothing. In this industry, Corporate Social Responsibility (CSR) stands pivotal in Company Law, representing a commitment to ethical and responsible business conduct. A complex intersection exists between company law and CSR in fast fashion companies, and there are several legal challenges, corporate obligations, and emerging issues. The Company law imposes multiple obligations on certain corporations, including fast fashion corporations, emphasizing legal responsibilities related to ethical sourcing, fair labour practices, and environmental sustainability. However, despite mounting pressures, a contrast exists as companies in developing nations predominantly engage in CSR activities for financial gain rather than genuine social welfare and environmental benefit. This behavior often results in superficial engagement or "greenwashing," where CSR becomes more of a marketing tool than a catalyst for sustainable development. Focusing on the Companies Act of 2013, the research elaborates on its provisions mandating certain companies meeting specific financial criteria to allocate funds toward CSR activities. Emphasizing legal compliance and transparency, the Act requires the formation of committees responsible for overseeing CSR activities, assigning funds, and annual reporting. The Act is a benchmark for companies contributing to societal welfare and ethical business practices. Exploring the regulatory compliance and company governance aspects, the study highlights their crucial roles in shaping CSR practices. These elements influence how fast fashion corporations meet ethical and sustainable standards while adhering to legal frameworks. Company governance structures ensure CSR strategies are integrated into operations and decision-making processes, promoting accountability and ethical conduct. Consumer rights and corporate transparency within fast fashion are addressed, emphasizing legal obligations to provide accurate product information and build honest relationships with consumers. Challenges in corporate transparency, deceptive practices by leading fast fashion brands, and the environmental and ethical implications within the industry

are also discussed. The progress in aligning with sustainable practices highlights the significance of legal consequences and advantages of successful CSR implementation. While acknowledging challenges in enforcement, monitoring, and varied levels of commitment, the study emphasizes the need for reinforced compliance mechanisms and industry-wide standards to enhance the effectiveness of legal provisions in fostering CSR in the fast fashion industry. It underscores the importance of ongoing improvements, adaptability, and a collective commitment toward a more sustainable and ethical future for the fashion industry.

KEYWORDS: Fast fashion, Corporate Social Responsibility (CSR), Sustainability, Greenwashing, Compliance, and Implementation.

INTRODUCTION:

The fast fashion industry operates within a framework known for its rapid production cycles, extensive global supply chains, and the pervasive offer of affordable clothing. Its operational dynamics, rooted in quick response to fashion trends and low-cost mass production, have prompted a closer examination of its practices' ethical, environmental, and social impacts. Corporate Social Responsibility (CSR) is a vital concept in the business industry. It refers to a corporation's commitment to ethical and responsible business practices while considering its impact on the environment, consumers, employees, communities, and other stakeholders. In the context of Company Law, CSR embodies a set of legal, ethical, and social obligations imposed on corporations to ensure that they operate financially, socially, and environmentally sustainable.

This intersection between Company Law and CSR in the fast fashion sector presents innumerable legal challenges and corporate obligations. Corporations in this industry are confronted with legal responsibilities that necessitate the ethical sourcing of materials, the assurance of fair labour practices, the minimization of environmental harm, and the disclosure of accurate information to consumers. As such, the legal landscape within which fast fashion companies operate has evolved to hold them accountable for their actions, not only in their immediate operations but also across their extensive and intricate global supply chains. Despite mounting pressures, companies in nations predominantly engage in Corporate Social Responsibility (CSR) activities voluntarily and in a humanitarian manner to strengthen their public image and primarily to augment business profits rather than solely for societal well-being and environmental welfare. These CSR initiatives often serve as a superficial and deceptive marketing strategy, commonly referred to as "greenwashing," undermining the core objective of sustainable development. Therefore, reforming the CSR concept and model to enhance compliance is imperative.

ISSUES IN CSR PRACTICES AND CORPORATE OBLIGATIONS:

In the realm of fast fashion, Company Law serves as a crucial regulator, defining the legal obligations and parameters for corporate conduct within this industry. It delineates the rights and responsibilities of corporations, outlining the legal landscape within which fast fashion companies must operate. Under Company Law, fast fashion corporations are bound by a spectrum of legal obligations and liabilities, particularly concerning Corporate Social Responsibility (CSR). This includes directives related to corporate

governance, compliance, reporting, and ethical conduct, all impacting how fast fashion companies manage their operations and supply chains.

Ethical sourcing, for instance, mandates adherence to ethical and sustainable procurement practices for raw materials, ensuring they are acquired without exploiting labour or causing environmental harm. Labour standards require just treatment of workers across the supply chain, including wages, working conditions, and well-being. Moreover, these legal obligations are strengthened by liabilities imposed on companies for any breaches or non-compliance. Failure to meet established standards may lead to legal consequences, including fines or sanctions, that hold corporations accountable for their actions and practices. The main issue in Corporate Social Responsibility (CSR) practices in fast fashion companies is that they often allow companies to fall short of genuinely meeting their ethical, social, and environmental responsibilities. Some of the critical issues in this aspect have been existing and evolving. Superficial engagement still exists, where companies engage in CSR activities to fulfill legal or public image requirements rather than genuinely committing to responsible practices. Lack of transparency in reporting and implementation allows companies to showcase selective or exaggerated CSR achievements without offering a comprehensive view of their actual impact. Some companies engage in "greenwashing," presenting a misleading or exaggerated impression of their environmental commitments. This can involve shallow gestures that do not genuinely address sustainability concerns.¹ Challenges in ensuring ethical practices across complex supply chains allow unethical conduct to persist, especially in subcontracted or offshore operations. Emphasis on meeting quantitative targets, like spending a certain amount on CSR, might overshadow the actual quality or effectiveness of the initiatives undertaken. Nearly all fast fashion companies adopt short-term, temporary CSR strategies to meet immediate compliance requirements without addressing long-term sustainability issues. Varied reporting standards and metrics in CSR practices create difficulties in comparing and assessing the genuine impact of initiatives across industries or companies. Companies sometimes lack accountability for the full spectrum of their social, environmental, and economic impacts, particularly in cases involving complex global operations and supply chains.²

COMPANIES ACT, 2013³ AND ITS CSR FRAMEWORK:

Under Indian law, several legal provisions and statutes are relevant to Corporate Social Responsibility (CSR) and the fast fashion industry. However, The Companies Act 2013 is the primary legislation governing companies in India. Under Section 135 of the Companies Act 2013, certain companies meeting specific criteria must spend a specified amount on CSR activities. It outlines qualifying companies' CSR framework, activities, responsibilities, and reporting requirements. As per the notification of 2014, under Section 135 of

¹ Shweta Nimwal, Ekta Nimwal & Korra Anand Nayak, Integration of Sustainability into Corporate Social Responsibility and the Fashion Industry: A Case Study on H&M, *IJLLR*, 1 (2023).

² Jacob Mickelsson, Joep J.G.M. van Haren, Jos G.A.M. Lemmink, Wrinkles in a CSR story: mismatched agendas in fast fashion service brands' CSR reputation, *J. Serv. Mgmt.* 2 (2023).

³ The Companies Act, 2013, No. 18, Acts of Parliament, 2013 (India) §135.

the Act, CSR is mandatory for all types of companies - government, private, or others - provided they meet any one or more of the following financial criteria:

1. The company's net worth should equal or exceed Rs 500 crores.
2. The company's annual turnover should amount to Rs 1000 crores or more.
3. The company's annual net profit should be at least Rs 5 crores. Businesses that have a specific amount of annual revenue, net worth, or profits are obligated to allocate a minimum of 2% of their average net profits from the previous three years towards Corporate Social Responsibility (CSR) activities. To ensure compliance, they must establish a committee, consisting of at least three directors, one of whom must be an independent director, to oversee their CSR obligations. The responsibilities of this committee were many, ranging from creating a comprehensive policy to implement the company's mandated CSR activities to adhering to Schedule VII of the Companies Act 2013. Allocating and monitoring funds, supervising the execution of diverse CSR activities, and releasing an annual report detailing the various CSR activities undertaken. The Companies Act emphasizes legal compliance and transparency. It necessitates companies to adhere to CSR norms and report on the expenditure and implementation of CSR initiatives. Transparency in reporting is crucial to ensure that companies meet their legal obligations and demonstrate their commitment to CSR.

The Companies (Corporate Social Responsibility Policy) Rules, 2014⁴ also plays a significant part in compliance. These rules lay down the details for companies to comply with the CSR provisions of Section 135 of the Companies Act 2013. It defines the specific activities that qualify as CSR, sets the criteria for identifying them, and prescribes the guidelines for reporting on CSR initiatives.

The legal framework governing CSR in India under the Companies Act of 2013 thus aims to commit to responsible business conduct. It sets a mandatory benchmark for companies to contribute to societal welfare, promoting ethical and sustainable practices while ensuring transparency and accountability in utilizing allocated CSR funds. Compliance with these laws is imperative for companies to fulfill their legal obligations.

REGULATORY COMPLIANCE AND COMPANY GOVERNANCE:

Regulatory compliance and company governance play pivotal roles in shaping the Corporate Social Responsibility (CSR) landscape within the fast fashion industry. These elements, deeply intertwined with legal frameworks and corporate practices, influence how companies operate and fulfill their responsibilities toward society, the environment, and stakeholders. Fast fashion firms are subject to a multitude of regulations that aim to govern their operations ethically, sustainably, and responsibly. These regulatory frameworks encompass labour laws, environmental regulations, and standards set by industry-specific authorities. Compliance mechanisms require companies to meet specific criteria, such as fair labour practices, ethical sourcing, waste management, and adherence to environmental standards. Moreover, regulations often demand

⁴ The Companies (Corporate Social Responsibility Policy) Rules, 2014 § GSR NO. 129E, Ministry of Corporate Affairs (February 27, 2014).

transparent reporting and compliance with legal obligations throughout the supply chain. A critical aspect of these mechanisms is the legal adherence to the stipulated standards, mandating companies to operate within the defined legal boundaries.

Company governance structures serve as the pillar for implementing and overseeing CSR practices within fast fashion corporations. Governance bodies, including boards of directors and management teams, play an instrumental role in setting CSR strategies and policies and overseeing their implementation. Effective governance frameworks establish internal controls, guidelines, and monitoring systems that ensure CSR objectives are integrated into the company's operations and decision-making processes. Governance mechanisms also facilitate accountability, transparency, and ethical conduct within the organization, aligning the company's objectives with legal and ethical requirements.

The impact of legal compliance and governance on CSR practices within fast fashion is multifaceted. Strong regulatory compliance, when integrated into the governance framework, ensures that companies meet legal standards and adhere to ethical responsibilities. This integration influences the company's culture, values, and operational strategies, emphasizing ethical and sustainable practices throughout the organizational hierarchy. Effective governance, aligned with legal compliance, paves the way for companies to adopt a more holistic approach to CSR, fostering a culture of responsibility, accountability, and ethical conduct in all facets of the business. In essence, the amalgamation of regulatory compliance mechanisms and robust company governance significantly shapes the CSR landscape within the fast fashion industry. Their combined influence sets the tone for responsible business practices, ensuring legal adherence while embedding ethical and sustainable principles at the core of corporate operations.⁵

CONSUMER RIGHTS AND CORPORATE TRANSPARENCY IN FAST FASHION CORPORATIONS:

Consumer rights, transparency, and the influence of Company Law play integral roles in shaping the relationship between consumers and fast fashion corporations. Today's consumers prioritize transparency and ethical practices when buying products. In the context of fast fashion, consumers expect companies to provide clear and accurate information regarding the sourcing of materials, production processes, and the ethical implications of their buying choices. Moreover, consumers demand the right to make informed decisions and understand their products' social and environmental impact. They seek assurance that their purchases align with ethical values, leading to a growing emphasis on sustainability, fair labour, and responsible production practices. Company Law serves as a safeguard for consumer protection within the fast fashion industry. It outlines legal obligations companies must fulfill to ensure transparency and protect consumer rights. These legal obligations encompass the requirement for accurate and non-deceptive marketing, ensuring that information provided to consumers is truthful and not misleading. Compliance with advertising standards,

⁵ Lorenzo Sacconi, Corporate Social Responsibility (CSR) as a Model of 'Extended' Corporate Governance. An Explanation Based on the Economic Theories of Social Contract, Reputation, and Reciprocal Conformism, LIUC, Ethics, Law and Economics, Paper No. 142, (2004).

product disclosure, and ethical sourcing practices are mandatory under Company Law. These help ensure consumers access truthful, accurate information to make informed purchasing decisions. The influence of legal frameworks within Company Law extends to promoting corporate transparency and shaping consumer relations. The legal framework ensures that companies respect and protect consumer rights throughout their interactions with the brand, fostering ethical relationships.

Corporate transparency in fast fashion companies involves several critical points. For example, transparency in fast fashion requires visibility across the entire supply chain. Fast fashion brands must disclose and share information about their suppliers, subcontractors, and manufacturers, ensuring visibility into the production processes and locations. Transparency about where materials are sourced from, whether they're sustainable or ethically produced, and the environmental impact of their sourcing is crucial. Transparent reporting on labour conditions within the supply chain is vital. Providing visibility into the treatment of workers, wages, working hours, and compliance with labour laws is an essential aspect of corporate transparency. Fast fashion companies need to disclose their environmental impact. Transparency about the ecological footprint, energy usage, waste management, and efforts towards sustainability, such as recycling and reduction of carbon emissions, is necessary. Transparent reporting on social responsibility initiatives is crucial. Companies must provide details about their community engagement, charity, and other CSR efforts, offering a clear view of their impact on society beyond their core business operations. Transparency in marketing materials is critical. Fast fashion companies should accurately represent their products, avoiding misleading or false claims about sustainability, ethical sourcing, or other aspects of their products. Ensuring transparency in communication with consumers is essential. Fast fashion companies must provide clear and accurate information about their products, production processes, and any efforts toward sustainability and ethical practices. Most importantly, transparent and comprehensive reporting on all aspects of operations related to CSR initiatives is essential. Companies should adhere to legal compliance while offering detailed reports to stakeholders.

FAST FASHION COMPANIES AND THEIR DECEPTIVE PRACTICES:

A few notable Fast fashion companies, such as H&M, Zara, and Primark, are big companies with revenues that fall under CSR compliance provisions. Generally, fast fashion companies are responsible for CSR as they sell out real soon and make hefty profit margins. These popular brands have often come under the radar for non-compliance with CSR activities in many aspects relating to environmental impacts, transparency, and labour standards. These brands market their CSR practices as environmentally friendly and transparent about the fabrics used. Still, it is a practice called Greenwashing, where these companies present a misleading or exaggerated picture of their environmental efforts to appear more eco-friendly than they are without real substantive change. These companies market eco-friendly collections, but most products are produced unsustainably, basically “Greenwashing.”⁶

⁶ Laghavi Pahwa, Fast Fashion: Is it a Company's Corporate Social Responsibility to be Sustainable?, The Journal of Indian Law and Society Blog (Nov. 12, 2023, 11:47 AM), <https://jils.blog/2020/07/21/fast-fashion-is-it-a-companys-corporate-social-responsibility-to-be-sustainable/>.

The H&M Group's core business revolves around offering fashion and quality products sustainably. Commencing its Corporate Social Responsibility (CSR) reporting in 2002, the company has progressively integrated environmentally friendly materials into its designs. Their sustainability focus expanded over the years, addressing environmental concerns such as contamination and resource impact, which is evident in their updated Vision and Strategy in 2016.⁷ H&M's commitments emphasize leading the change, aiming for circularity, and promoting fairness and equality. However, it is not the reality. These companies promote such things to maintain a brand status but instead follow unsustainable practices like dumping the excess clothes in economically backward countries and exploiting people who belong there as well in terms of labour, health, etc. Also, in some instances, the corporate structure involving multiple layers of suppliers and contractors sometimes creates challenges in holding the parent companies directly accountable for the actions of their subsidiaries or suppliers in India. There can be difficulties in tracing and enforcing responsibility for ethical and environmental issues throughout the supply chain.

In adherence to Section 135 of the Companies Act 2013, CSR efforts are linked to financial expenditure, set at a minimum of two percent of the net profit. However, corporations often lack transparency in reporting their CSR spending. There have been instances where companies manipulated figures to meet the mandated CSR expenditure, and some have decreased spending significantly from their pre-regulation levels. Fast fashion companies tend to focus on selective CSR activities that primarily benefit their brand image and business growth rather than activities that genuinely contribute to societal well-being. Some corporations perceive the mandated two percent CSR spending as a means to generate additional profits through a "back-door" approach and fill gaps where the government's intervention is insufficient.

ETHICAL AND ENVIRONMENTAL IMPLICATIONS:

The fast fashion industry's ethical and environmental implications encompass many interconnected challenges, ranging from labour practices to sustainability concerns. These aspects not only affect the operational dynamics of corporations but also raise substantial ethical and legal considerations under Company Law. Within fast fashion supply chains, ethical concerns often revolve around labour practices. Various regions where fast fashion operates have reported instances of exploitative working conditions, inadequate wages, and extended working hours. These practices raise ethical questions about the treatment of workers, demanding a closer examination of fair labour standards and the responsibility of companies to ensure decent working conditions. Under Company Law, this translates into the legal obligation of fast fashion corporations to maintain ethical labour practices and align with labour laws and standards set by regulatory authorities. The environmental impact of fast fashion has recently become a significant concern. The industry's high production volumes, rapid turnover of clothing lines, and reliance on resource-intensive materials contribute to substantial environmental degradation. Increased water consumption, chemical pollution, and textile waste exacerbate the industry's ecological footprint.⁸ As such, legal and ethical responsibilities dictate that fast fashion companies operate in a manner that minimizes environmental harm. Compliance with

⁷ Ibid.

⁸ Aisiri Girish, Effects of Fast Fashion on the Environment and its Impact on Sustainable Development, 5 IJLLR. 1 (2023).

environmental regulations and adopting sustainable practices, such as using eco-friendly materials or implementing recycling programs, becomes an ethical and legal imperative under Company Law.

Fast fashion companies have legal and ethical responsibilities to meet specific standards, which include compliance with labour laws, ensuring fair wages, safe working conditions, and adhering to working hour limitations under company law. Ethical responsibilities extend beyond legal obligations, urging companies to exceed minimum requirements and proactively address social and environmental concerns. Demonstrating moral responsibility in line with legal requirements involves transparency in supply chains, implementing ethical sourcing practices, and mitigating environmental impacts.

CONCLUSION AND SUGGESTIONS:

The intertwining relationship between Company Law and Corporate Social Responsibility (CSR) within the fast fashion industry highlights progress and challenges in fostering ethical and sustainable practices. The Companies Act of 2013 is a crucial legal framework that requires certain companies to dedicate some of their profits to corporate social responsibility (CSR) initiatives. The primary objective of this legal obligation is to enforce accountability, transparency, and commitment in the operational dynamics of fast fashion companies. The significance of Company Law in shaping CSR practices underscores the pivotal role of regulations in steering the industry towards more responsible conduct. It mandates integrating ethical practices, environmental sustainability, and social welfare within the fast fashion sector. While the legal provisions have stimulated greater awareness and actions toward sustainability, their effectiveness faces challenges in enforcement, monitoring, and authentic implementation across complex supply chains.

The initiatives taken by fast fashion brands like H&M and Zara exemplify attempts to align with sustainable practices, such as transitioning to circular business models and promoting fairness and equality throughout their operations. However, challenges persist, including the threat of greenwashing and varied levels of commitment and implementation.

Successful implementation of CSR practices within the aspects of Company Law offers various legal implications and advantages. Compliance with legal requirements safeguards companies from potential legal repercussions and penalties and enhances their public image, bolstering brand reputation and fostering stakeholder trust. Legal compliance strengthens corporate legitimacy and mitigates risks associated with non-compliance, thereby securing a competitive advantage within the industry. Continuous evaluation, reinforced compliance mechanisms, and industry-wide standards are essential to enhance the efficacy of legal provisions in fostering CSR in the fast fashion industry. The collaboration of stakeholders, increased transparency, and stricter monitoring systems will further fortify the impact of legal frameworks in steering the industry towards a more ethical, sustainable, and responsible trajectory.

In this evolving landscape, the synergy between Company Law and CSR is a cornerstone for promoting positive change, responsible business practices, and mitigating environmental and social impacts in the fast fashion industry. It's an ongoing journey that necessitates continuous improvements, adaptability, and a collective commitment toward a more sustainable and ethical future for the fashion industry.

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