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A CRITICAL ANALYSIS OF MANDATORY CSR AND ITS ROLE IN MODERN CORPORATE GOVERNANCE

*Anchal Beetan*¹

INTRODUCTION

Corporate Social Responsibility is a concept that recognizes the moral and social obligation of corporations to contribute positively to the society in which they operate. The corporations are integral parts of the social ecosystem and therefore have a responsibility to give back to society. From a human perspective, CSR reflects the idea that business success should not be isolated from social progress and that organizations must actively support the welfare of the community, especially the needy and marginalized sections of society.

CSR activities enable corporations to address pressing social issues such as poverty, inequality, lack of education, poor healthcare, and environmental degradation. By investing in these areas, companies help improve the quality of life of disadvantaged groups and contribute to building a more inclusive and equitable society. This “give back to society” approach is rooted in the understanding that businesses derive resources, labor, and opportunities from the same society, and therefore have a responsibility to return value to it.

In essence, CSR transforms business entities from purely profit-driven organizations into socially responsible institutions that balance economic growth with human welfare and sustainable development. The present Article aims to critically study mandatory CSR and its role in modern corporate governance in India where CSR has been made compulsory under Section 135 of the Companies Act, 2013. It acknowledges how CSR has changed from a voluntary social service to a legal requirement and whether this change has really helped society or has only become a compliance rule for companies.

¹ LL.M Scholar, Department of Laws, Himachal Pradesh University, Shimla and an Advocate practicing at the High Court of Himachal Pradesh, Shimla

CONCEPTUAL FRAMEWORK OF CSR

Corporate social responsibility, often referred to as CSR, are the steps and measures taken to assess and take responsibility for the impact caused by a corporation on the environment and social well-being. It involves all initiatives taken to improve the society and reduce adverse effects caused by the business of the corporation.²

In India, Section 135 of the Companies Act, 2013 deals with the provision relating to Corporate Social Responsibility and Schedule VII of the Act lays down the activities that companies in India may undertake as part of their Corporate Social Responsibility (CSR) obligations to promote social, environmental, and economic development.³ Section 2(d) of the Companies (Corporate Social Responsibility Policy) Rules, 2014 as amended in 2021, defines the term Corporate Social Responsibility.⁴

The following are some theories relating to Corporate Social Responsibility: -

Stakeholder Theory: Proposed by R. Edward Freeman, Stakeholder Theory states that a company should consider the interests of all stakeholders, including employees, customers, suppliers, communities, and shareholders rather than focusing only on profits. The theory emphasizes ethical management and long-term relationships with all groups affected by business activities.⁵

Shareholder Theory: Shareholder Theory argues that the primary responsibility of a business is to maximize profits and shareholder value. Popularized by Milton Friedman, the theory suggests that companies should engage in social activities only if they contribute to economic performance and remain within legal and ethical boundaries.⁶

Triple Bottom Line Theory: Developed by John Elkington, the Triple Bottom Line Theory states that companies should measure success not only through profit, but also through their

² Ministry of Coal, Corporate Social Responsibility (CSR) <https://coal.nic.in/index.php/CSR/about-csr>.

³ The Companies Act, 2013, No. 18 of 2023, S 135 (Ind.).

⁴ The Companies (Corporate Social Responsibility Policy) Rules, 2014 Gazette of India., pt. II sec. 3(i), (Feb. 27, 2014).

⁵ *Understanding CSR Theories: Corporate, Stakeholder, and Triple Bottom Line*, BCOM.INSTITUTE Jan. 24, 2024) <https://bcom.institute/business-organisation-management/understanding-csr-theories-corporate-stakeholder-triple-bottom-line/>.

⁶ Domènec Melé, *CSR: four theories for a necessary practice*, IESE BUSINESS SCHOOL (Oct. 17, 2018) https://www.iese.edu/insight/articles/csr-theories-necessary-practice/?utm_.

social and environmental impact. It focuses on the three Ps; People (social responsibility), Planet (environmental sustainability) and Profit (economic performance).⁷

Legitimacy Theory: Legitimacy Theory suggests that businesses operate based on society's approval and must act in ways that align with social norms, values, and expectations. Companies use CSR activities and sustainability reporting to maintain public trust, legitimacy, and long-term survival within society.⁸

HISTORICAL DEVELOPMENT OF MANDATORY CSR

Corporate Social Responsibility in India evolved from traditional philanthropy to a structured legal and strategic framework. Long before CSR became a statutory obligation, Indian society embraced the concept of social welfare through charitable giving, community service, and ethical business conduct. Ancient Indian traditions such as *dāna* (charity) and Gandhian principles of trusteeship laid the moral foundation for responsible business practices in the country. Wealthy merchants, kings, and industrial families contributed to public welfare by building schools, hospitals, temples, rest houses, and community infrastructure.⁹

During the colonial period and the early industrial era (1850–1914), prominent business families such as the Tata, Birla, Godrej, and Bajaj groups institutionalized philanthropy by establishing trusts, educational institutions, and healthcare facilities. Industrialists like Jamsetji Tata viewed business wealth as a means for nation-building and social development. CSR during this phase was largely voluntary and driven by religious values, ethical beliefs, and family traditions rather than legal obligations.¹⁰

The second phase of CSR evolution coincided with India's freedom movement and was significantly influenced by Mahatma Gandhi's philosophy of trusteeship. Gandhi argued that industrialists should act as trustees of societal wealth and use their resources for the welfare of the community. Businesses were encouraged to contribute toward rural development, education, social equality, and upliftment of marginalized groups. This phase broadened CSR

⁷ The Companies Act, 2013, No. 18 of 2023, S. 135 (Ind.).

⁸ Maria da Conceição da Costa Tavares and Alcina Portugal Dias, *Theoretical Perspectives on Sustainability Reporting: A Literature Review* https://www.intechopen.com/chapters/61657?utm_ (Oct. 24, 2018).

⁹ *Historical Evolution of CSR in India: From Philanthropy to Corporate Strategy*, CSR.EDUCATION (May 11, 2024) https://csr.education/fundamentals-of-csr/evolution-csr-india-philanthropy-to-strategy/?utm_.

¹⁰ *The Journey of CSR Legislation in India: From Voluntary Guidelines to Mandatory Compliance*, CSR.EDUCATION (May 13, 2024) https://csr.education/fundamentals-of-csr/csr-legislation-india-voluntary-to-mandatory/?utm_.

from charitable donations to social responsibility linked with national development and ethical governance.¹¹

After independence, India adopted a mixed economy model where Public Sector Undertakings played a major role in economic and social development. Between 1960 and 1980, CSR activities remained limited due to strict industrial regulations, high taxation, and government control over industries. Nevertheless, concerns regarding labor welfare, environmental protection, and corporate governance gradually increased, leading to discussions about the broader social responsibilities of corporations.¹²

The liberalization era of the 1990s marked a turning point in the evolution of CSR in India. Economic reforms, globalization, and increasing stakeholder awareness encouraged companies to adopt strategic CSR initiatives aligned with sustainable development and corporate governance. CSR began shifting from pure philanthropy to a business strategy focused on long-term social impact, brand reputation, stakeholder engagement, and sustainability. Companies increasingly invested in education, healthcare, environmental conservation, skill development, and community empowerment projects.¹³

To encourage responsible corporate behavior, the Government of India introduced voluntary CSR guidelines through the Ministry of Corporate Affairs. The Corporate Social Responsibility Voluntary Guidelines, 2009 and the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 emphasized ethical governance, sustainability, and stakeholder responsibility. These guidelines laid the groundwork for future mandatory CSR legislation.¹⁴

A historic milestone was achieved with the enactment of the Companies Act 2013, which introduced Section 135 and made India the first country in the world to legally mandate CSR spending. Schedule VII of the Companies Act, 2013 identified approved CSR activities.¹⁵ In recent years, CSR in India has increasingly aligned with ESG principles and SDGs.¹⁶

LEGAL FRAMEWORK GOVERNING MANDATORY CSR

¹¹ Id.

¹² Id.

¹³ Id.

¹⁴ *The Evolution of Corporate Social Responsibility: From Charity to Strategic Integration*, THELAW.INSTITUTE (Dec. 3, 2025) https://thelaw.institute/consumer-and-consumer-protection-legislations/evolution-corporate-social-responsibility-strategic-integration/?utm_

¹⁵ Id.

¹⁶ Id.

Companies Act, 2013 provides for a detailed mechanism for corporate social responsibility. Section 135 makes Corporate Social Responsibility (CSR) mandatory for certain eligible companies. It applies to companies having net worth of ₹5 crore or more, turnover of ₹1000 crore or more, or net profit of ₹5 crore or more in a financial year. Such companies must constitute a CSR Committee of the Board (generally 3 or more directors, including at least one independent director; or 2 directors where independent director is not required).¹⁷

The CSR Committee is responsible for formulating and recommending the CSR Policy, identifying activities under Schedule VII, recommending CSR expenditure, and monitoring implementation. The Board must approve the CSR policy, disclose it in its report and website, and ensure its proper execution.¹⁸

Companies are required to spend at least 2% of their average net profits of the last three years on CSR activities, preferably in local areas. If CSR funds remain unspent, the company must explain reasons and transfer the amount to specified funds or an Unspent CSR Account for ongoing projects, to be utilised within three years or transferred further if unspent. Excess CSR spending may be set off against future obligations.¹⁹

Non-compliance leads to penalties on both the company and responsible officers. The Central Government may also issue directions for compliance. If CSR liability does not exceed ₹50 lakh, a CSR Committee is not mandatory, and the Board can handle CSR directly.²⁰

Schedule VII of the Act lays down the activities that companies in India may undertake as part of their Corporate Social Responsibility (CSR) obligations to promote social, environmental, and economic development. The thrust areas can be concisely mentioned as follows:²¹

1. Poverty & Health
2. Education & Skills
3. Women & Social Welfare
4. Environment & Sustainability
5. Heritage & Culture
6. Promotion of traditional arts and handicrafts
7. Sports Promotion

¹⁷ The Companies Act, 2013, No. 18 of 2023, S 135 (Ind.).

¹⁸ Id.

¹⁹ Id.

²⁰ Id.

²¹ The Companies Act, 2013, No. 18 of 2023, Schedule VII (Ind.).

8. Government Relief Funds
9. Research & Innovation
10. Rural development projects, slum area development and disaster management.²²

MANDATORY CSR AND CORPORATE GOVERNANCE

Corporate governance refers to the way in which a company is governed or operated. In essence, corporate governance is a framework of rules, regulations, practices, and processes through which companies are controlled and directed. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

Mandatory CSR refers to CSR activities required by law or government regulations. It is compulsory for eligible companies. The aim is to ensure that companies contribute a fixed portion of profits toward social development. It is legally mandated under Section 135 of the Companies Act, 2013 in India. CSR spending and reporting must follow prescribed legal rules and guidelines. Non-compliance may attract penalties and disclosure requirements. Eligible Indian companies are supposed to spend at least 2% of average net profits on CSR activities as mandated by law.

Whereas, Voluntary CSR refers to CSR activities undertaken voluntarily by companies based on ethics, values, and social commitment. These are optional, self-driven and aim to build goodwill, improve reputation, and contribute to society voluntarily. There is no legal obligation to perform such activities. Thus, there is no legal penalty. The Company independently decides the amount and area of CSR spending. There is high flexibility in selecting projects and spending. For example, a company voluntarily funding local schools or environmental campaigns.

Corporate Social Responsibility acts as an important corporate governance tool by including social, environmental, and ethical concerns into a company's decision-making and management structure. In modern corporate governance, CSR is no longer seen as charity. Instead, it functions as a strategic mechanism that improves accountability, transparency, and long-term sustainability of business operations.

²² Id.

CSR as a Governance Tool: CSR as a governance tool means using CSR policies and practices to guide, monitor, and regulate corporate behavior in a way that aligns business goals with societal expectations and ethical standards.

Board Accountability and Ethical Leadership: Board accountability means directors are responsible for ensuring ethical, legal, and responsible management of the company. Ethical leadership ensures decisions are guided by fairness, transparency, and long-term social responsibility. Boards oversee CSR policies and ensure compliance and proper use of funds.

Transparency and Disclosure Practices: Transparency involves openly sharing information about CSR activities and performance. Companies disclose CSR spending, projects, and outcomes through annual and sustainability reports. This builds trust, reduces misuse, and improves accountability.

Stakeholder Engagement and Trust Building: Stakeholder engagement means involving all affected groups like employees, communities, and customers in corporate decisions. CSR promotes dialogue, participation, and feedback, helping build trust, goodwill, and better implementation of projects.

Role of Independent Directors and CSR Committees: Independent directors ensure unbiased oversight and ethical governance. CSR Committees (mandatory in many countries like India) design CSR policies, approve spending, and monitor implementation, ensuring compliance and effective social impact.

BENEFITS OF MANDATORY CSR

Social and Economic Development: Mandatory CSR promotes inclusive development by directing corporate funds toward key social sectors such as education, healthcare, sanitation, skill development, and rural upliftment. It helps bridge gaps in development by supporting government efforts and improving quality of life in underdeveloped regions.²³

Corporate Reputation and Brand Value: CSR improves a company's public image by demonstrating ethical responsibility and commitment to society. Firms that actively engage in

²³ Mayashree Acharya, *Corporate Social Responsibility Under Section 135 of Companies Act 2013*, CLEAR TAX (May 6, 2026) <https://cleartax.in/s/corporate-social-responsibility> [hereinafter Mayashree Acharya, *Corporate Social Responsibility*].

CSR are perceived as more trustworthy, responsible, and sustainable, which strengthens brand loyalty and attracts investors and customers.²⁴

Improved Stakeholder Relations: Mandatory CSR enhances relationships with stakeholders such as employees, communities, customers, and government bodies. It promotes trust, reduces conflicts with local communities, and encourages cooperation in business operations.²⁵

Long-Term Sustainability and Risk Management: CSR supports long-term business sustainability by encouraging environmentally responsible practices and reducing social and regulatory risks. Companies that adopt CSR reduce chances of reputational damage, legal penalties, and operational disruptions.²⁶

Contribution to Sustainable Development Goals (SDGs): Mandatory CSR contributes to achieving global Sustainable Development Goals (SDGs) such as poverty eradication, quality education, clean energy, and climate action. It aligns corporate activities with national and international development priorities.²⁷

Enhancement of Corporate Accountability: CSR improves corporate accountability by requiring companies to report their CSR spending, projects, and impact. This ensures transparency, prevents misuse of funds, and strengthens governance systems.²⁸

CRITICAL ANALYSIS OF MANDATORY CSR

ARGUMENTS IN FAVOUR OF MANDATORY CSR

Mandatory CSR ensures that companies contribute systematically to social development rather than relying on voluntary goodwill. It promotes structured social investment in education, healthcare, rural development, and environmental protection. It also strengthens corporate accountability and ensures that profits are partly used for public welfare.²⁹

CRITICISM OF MANDATORY CSR

²⁴ *A Conceptual Framework Of Corporate Social Responsibility In India*, MONDAQ (Jul. 27, 2017) <https://www.mondaq.com/india/corporate-governance/514292/a-conceptual-framework-of-corporate-social-responsibility-in-india>.

²⁵ *Id.*

²⁶ Jyoti Baluni, *Corporate Social Responsibility (CSR) and its Tax Implications in India*, TAXGURU Jul. 2, 2025) <https://taxguru.in/company-law/corporate-social-responsibility-csr-tax-implications-india.html> [hereinafter Jyoti Baluni, *Corporate Social Responsibility (CSR) and its Tax Implications in India*].

²⁷ Mayashree Acharya, *Corporate Social Responsibility*, *Supra* note 23.

²⁸ *Id.*

²⁹ *Id.*

Restriction on Corporate Freedom: Mandatory CSR is criticized for limiting managerial autonomy, as companies are legally required to spend profits on specified social causes instead of deciding freely.

Compliance-Oriented Approach: Firms may treat CSR as a legal obligation rather than a moral responsibility, reducing its effectiveness.

Tokenism and Greenwashing: Some companies engage in symbolic CSR activities just to fulfill legal requirements, without real social impact.

Lack of Genuine Social Commitment: Compulsory CSR may reduce voluntary enthusiasm and genuine commitment to social welfare.³⁰

CHALLENGES IN IMPLEMENTATION

Monitoring Difficulties: Evaluating the actual impact of CSR projects is complex due to lack of standardized measurement tools.

Lack of Transparency: Some companies provide insufficient or vague disclosure of CSR activities.

Misallocation of CSR Funds: Funds may not always reach priority sectors or the most needy communities.

Rural vs Urban CSR Imbalance: CSR spending is often concentrated in urban areas, leaving rural development underfunded.³¹

CORPORATE RESPONSES AND PRACTICAL CONCERNS

Companies respond to mandatory CSR in different ways:³²

- Setting up dedicated CSR foundations or trusts
- Partnering with NGOs for implementation
- Focusing on measurable, short-term projects rather than long-term impact
- Aligning CSR with business interests (strategic CSR)

³⁰ Jyoti Baluni, *Corporate Social Responsibility (CSR) and its Tax Implications in India*, supra note 26.

³¹ *Id.*

³² Mayashree Acharya, *Corporate Social Responsibility*, supra note 23.

- Increasing reporting and compliance systems to meet legal requirements

CASE STUDIES AND PRACTICAL EXAMPLES

Successful CSR models are those where companies integrate social responsibility into their core business strategy rather than treating it as charity. These models focus on sustainability, community development, and long-term impact. Globally, leading firms align CSR with ESG principles and Sustainable Development Goals (SDGs), ensuring measurable outcomes and transparency.

- **Tata Group:** Tata Group is one of India's oldest and most respected CSR-driven business houses. It has consistently invested in education, healthcare, rural development, and community welfare through Tata Trusts. CSR is deeply embedded in its corporate philosophy, making it a model of ethical business leadership.³³

- **Infosys:** Infosys focuses heavily on education, digital literacy, and skill development through the Infosys Foundation. It supports rural education, healthcare, and social welfare programs across India, emphasizing capacity building and human development.³⁴

- **Reliance Industries:** Reliance Industries Limited implements large-scale CSR initiatives in healthcare, rural transformation, education, and disaster relief. Its CSR activities are often infrastructure-driven and aim for wide-scale impact.³⁵

Globally, companies adopt CSR through ESG frameworks, carbon neutrality goals, ethical supply chains, and community development programs. Many multinational corporations integrate sustainability into core operations and publish detailed sustainability reports aligned with global standards.³⁶

CSR failures occur when companies engage in superficial or poorly implemented initiatives. Common issues include lack of transparency, poor monitoring, misallocation of funds, and projects that do not meet community needs. In some cases, CSR is used for image-building rather than real social impact (greenwashing).³⁷

³³ CSR, TATA SUSTAINABILITY GROUP <https://www.tatasustainability.com/SocialAndHumanCapital/CSR>.

³⁴ *Corporate Social Responsibility*, INFOSYS <https://www.infosys.org>.

³⁵ *Corporate Social Responsibility*, RELIANCE <https://www.ril.com/about/corporate-social-responsibility>.

³⁶ *UNEP and the Sustainable Development Goals*, UNITED NATIONS <https://www.unep.org/explore-topics/sustainable-development-goals> [HEREINAFTER *UNEP and the Sustainable Development Goals*, UNITED NATIONS].

³⁷ *Id.*

EMERGING TRENDS IN CSR AND GOVERNANCE

ESG (Environmental, Social, Governance) Integration: ESG represents a modern approach where corporate performance is evaluated not only on profits but also on environmental protection, social responsibility, and governance quality. It has become a key framework for investors and regulators to assess corporate sustainability and ethical performance.³⁸

Sustainability Reporting and Integrated Reporting: Sustainability reporting involves disclosing environmental, social, and governance impacts of a company's operations. Integrated reporting combines financial and non-financial performance into a single report, showing how a company creates long-term value.³⁹

Digital Governance and CSR Monitoring: Digital technologies such as AI, blockchain, and data analytics are increasingly used to track CSR spending, monitor project implementation, and improve transparency. Digital dashboards allow real-time monitoring of CSR outcomes.⁴⁰

Climate Change and Green Corporate Governance: Green governance focuses on reducing environmental impact through sustainable practices such as carbon reduction, renewable energy adoption, waste management, and circular economy models. Companies are increasingly setting net-zero emission targets.⁴¹

Future of Responsible Business Practices: The future of CSR is shifting from compliance-based responsibility to strategic sustainability integration. Businesses are expected to adopt ESG-driven models, stakeholder capitalism, and long-term value creation strategies.

RECOMMENDATIONS AND POLICY SUGGESTIONS

Strengthening CSR Compliance Mechanisms: CSR compliance should be strictly monitored through stronger regulatory frameworks, audits, and penalties for non-compliance. Clear guidelines and periodic evaluations can ensure that companies genuinely implement CSR rather than treating it as a formality.⁴²

³⁸ *ESG: A Comprehensive Guide*, CORPORATE GOVERNANCE INSTITUTE <https://www.thecorporategovernanceinstitute.com/insights/guides/esg-a-comprehensive-guide-to-environmental-social-and-governance-principles/>.

³⁹ *The global standards for sustainability impacts*, GRI <https://www.globalreporting.org/standards/> [HEREINAFTER *The global standards for sustainability impacts*, GRI].

⁴⁰ *Digital and AI*, WORLD BANK GROUP <https://www.worldbank.org/en/topic/digitaldevelopment>.

⁴¹ Climate Actions, UNITED NATIONS <https://www.un.org/en/climatechange>.

⁴² Ministry of Corporate Affairs, <https://www.mca.gov.in/>.

Enhancing Transparency and Accountability: Companies should adopt standardized CSR reporting formats, third-party audits, and detailed disclosure of project outcomes. Transparency ensures that CSR funds are properly utilized and builds trust among stakeholders.⁴³

Encouraging Impact-Based CSR: CSR should shift from expenditure-based reporting to outcome-based evaluation. Instead of focusing only on how much is spent, companies should measure real social impact such as improvement in education, health, or income levels.⁴⁴

Improving Community Participation: Local communities should be actively involved in planning, implementation, and monitoring of CSR projects. This ensures that CSR initiatives address real needs and are sustainable in the long run.⁴⁵

Balancing Profit Motive and Social Responsibility: Companies should integrate CSR into their core business strategy so that profitability and social responsibility coexist. This balance ensures long-term sustainability and avoids conflict between economic goals and ethical responsibilities.⁴⁶

CONCLUSION

Mandatory CSR has become an important tool of modern corporate governance. It ensures that companies systematically contribute to social and economic development through activities like education, healthcare, rural upliftment, and environmental protection. Overall, it has strengthened stakeholder-oriented governance. However, its effectiveness is mixed, as it often faces issues such as compliance-driven implementation, tokenism, and uneven impact across regions, which can limit genuine social outcomes.

In the future, Mandatory CSR is expected to evolve into a more strategic and impact-based system aligned with ESG (Environmental, Social, and Governance) principles and sustainability goals. Digital monitoring, integrated reporting, and stronger community participation are likely to improve transparency and effectiveness. Despite its challenges, CSR has significantly reshaped corporate governance by balancing profit motives with social responsibility, and it will continue to play a key role in promoting sustainable, inclusive, and responsible business practices.

⁴³ *The global standards for sustainability impacts*, GRI, supra note 39.

⁴⁴ *UNEP and the Sustainable Development Goals*, UNITED NATIONS, supra note 36.

⁴⁵ *Social Development*, WORLD BANK GROUP <https://www.worldbank.org/en/topic/socialsustainability>.

⁴⁶ *Id.*