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Corporate Social Responsibility under the Companies Act, 2013: Compliance Challenges and Strategic Management Approaches

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Introduction

When the Companies Act, 2013, came into force, one of its most talked-about provisions was Section 135, which made Corporate Social Responsibility (CSR) mandatory for certain companies in India. [1]Before this law, CSR was mostly a voluntary effort by businesses – something they did out of goodwill or to improve their image. But after 2013, it became a legal requirement. Companies that meet specific financial criteria now have to spend at least 2% of their average net profits from the last three years on social and environmental activities listed in Schedule VII of the Act[2].

As we stand in 2026, more than a decade later, CSR has become a regular part of corporate life. The government has made some tweaks along the way, such as the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2025, which introduced a new web-based Form CSR-1 and stricter checks on implementing agencies. [3]Yet, even with these updates, many companies still find it hard to turn this legal duty into something meaningful. Some treat it as just another compliance box to tick, while smarter ones see it as a chance to build real value for their business and society.

In this short article, I look at how the CSR framework works under the Companies Act, the practical problems companies face in following it, and some smart management strategies that can turn CSR from a burden into a strength. The focus is on combining the legal side with real-world business thinking – something every intern or young professional should understand.

Legal Framework of CSR under the Companies Act, 2013

Section 135 of the Companies Act, 2013 is the heart of mandatory CSR in India. [4]It applies to any company that, in any financial year, has:

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[1] The Companies Act, 2013, Sec-135, No. 18, Acts of Parliament, 2013 (India).
[2] Id. at Schedule VII
[3] Companies (Corporate Social Responsibility Policy) Amendment Rules, 2025, G.S.R. __ (2025) (India).

[4] The Companies Act, 2013, S 135.

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

Once a company crosses any one of these limits, it must set up a Corporate Social Responsibility Committee. This committee usually has three or more directors, including at least one independent director. The Board of Directors then has to approve a CSR Policy based on the committee's recommendations and make sure the company actually spends the required 2% amount.

Schedule VII of the Act gives a list of areas where this money can go. [5]It covers things like eradicating hunger and poverty, promoting education and vocational skills, gender equality, environmental sustainability, animal welfare, rural development, and disaster relief. Companies are encouraged to focus on local areas where they operate, but it's not a strict rule.

The Board is responsible for formulating a CSR Policy based on the committee's recommendations, ensuring that at least 2% of the average net profits of the preceding three financial years is spent on permissible activities, and disclosing the details in the Board's Report and on the company's website. Schedule VII of the Act provides an illustrative list of activities that qualify as CSR. These include eradicating hunger and poverty, promoting education and vocational skills, ensuring environmental sustainability, promoting gender equality, rural development projects, and contributions to disaster relief.

The Companies (Corporate Social Responsibility Policy) Rules, 2014 (updated in 2025), add more details. [6]For example, the 2025 amendment made the new e-form CSR-1 fully web-based and required implementing agencies (like NGOs or Section 8 companies) to provide more documents, such as audited accounts and professional certification by a CA, CS, or CMA. Unspent money has to be handled carefully – it either goes into a special Unspent CSR Account or to a Schedule VII fund within set timelines. Big spends also need impact assessment reports.

Another important development is the Companies (Amendment) Bill, 2025, introduced in December 2025. This Bill proposes to lower the applicability thresholds to net worth of ₹100 crore, turnover of ₹500 crore, or net profit of ₹3 crore. It also suggests adding one director with extensive experience in planning and implementing CSR projects to the committee. Although the Bill has not yet become law, it signals the government's intention to bring more mid-sized companies under the CSR net and improve governance.

Unspent CSR amounts must be transferred either to an Unspent CSR Account for ongoing projects or to a Schedule VII fund within prescribed timelines. Large spends require impact assessment reports. Failure to comply attracts penalties under Section 135(7): the company may be penalised up to twice the unspent amount or ₹1 crore (whichever is lower), while officers in default can face fines up to ₹5 lakh.

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[5] Companies (Corporate Social Responsibility Policy) Rules, 2014, rule 4 (as amended by the Companies (Corporate Social
[6] Responsibility Policy) Amendment Rules, 2025).

If a company fails to spend the money or follow the rules, there are penalties under Section 135(7). [7]The company can be fined up to twice the unspent amount (or ₹1 crore, whichever is lower), and responsible officers can face fines too. This has made compliance a serious board-level matter.

Compliance Challenges: The Ground Reality

Even though the law looks straightforward on paper, putting it into practice is often messy. From what I've seen in reports and case studies, here are some of the biggest hurdles companies face:

First, identifying good projects is tough. Many companies don't have in-house teams that know how to pick high-impact activities that actually fit Schedule VII. They end up relying on external partners, which can lead to higher costs, poor monitoring, or projects that don't match the company's strengths.

Second, there's the issue of where the money goes. Because of the "local area" preference, spending often gets concentrated in big cities or around factory locations. This leaves remote or backward areas neglected. Education and healthcare take up the lion's share of CSR funds (sometimes over 50%), while areas like skill development or environmental projects get less attention.

Third, handling unspent funds creates a lot of pressure. The rules around ongoing projects versus regular activities require detailed records. One small mistake in documentation can trigger penalties or bad publicity.

Fourth, measuring real impact is difficult. The law now wants proper assessment for larger spends, but there's no single standard way to do it. This leads to vague reports and extra administrative work.

Fifth, tax rules add to the pain. CSR spending is not treated as a normal business expense under the Income Tax Act, so it increases the effective cost for companies.

Finally, the regulatory changes keep coming. The 2025 Rules tightened checks on implementing agencies, and there's talk of the Companies (Amendment) Bill, 2025 possibly lowering thresholds or adding more requirements. Companies have to stay alert all the time.

All these issues often turn CSR into a yearly rush instead of a well-planned activity.

Strategic Management Approaches: Making CSR Work for Business

The companies that do CSR really well don't see it as a cost – they treat it as part of their overall strategy. This "strategic CSR" approach links social work with the company's core business, creating benefits for everyone.

One good example is ITC Limited. Through its e-Choupal programme, ITC helps farmers get better market information and training. This not only improves rural lives but also secures a steady supply of quality raw materials for ITC's own business. It's a classic win-win.

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[7] The Companies Act, 2013, § 135(7).
Income Tax Act, 1961, § 37 (India) (CSR expenditure is not deductible as business expenditure).

The Tata Group is another strong case. Their CSR work goes back decades, even before the law made it compulsory. By aligning community programmes with their values of trust and sustainability, Tata has built enormous goodwill and a loyal workforce.

JSW Steel has also moved from simple donations to focused, location-specific projects in education, healthcare, and skill training near its plants. This has helped the company maintain smooth operations and earn a strong "social licence" in those areas.

Reliance Industries, one of the biggest CSR spenders in FY25, has also adopted a strategic approach. Its initiatives in education, healthcare, and rural development are closely linked to its business operations and digital infrastructure, allowing the company to reach millions of beneficiaries while strengthening its social licence to operate.

Here are some practical strategies that work:

1. **Align CSR with business goals** – Choose projects that support your supply chain, employee skills, or brand image.
2. **Build internal expertise** – Create a dedicated CSR team instead of leaving it to the HR or legal department.
3. **Partner smartly** – Work with other companies, industry bodies, or government schemes (like Skill India or Swachh Bharat) to get better scale and results.
4. **Use data and technology** – Track impact with simple tools and analytics so reports are credible and useful.
5. **Involve employees** – Run volunteering programmes. It boosts morale and brings fresh ideas.
6. **Focusing on long-term impact and multi-year projects** – Instead of rushing to spend the 2% amount in the last quarter, companies should plan CSR activities for 2–3 years. This approach creates sustainable results, makes impact assessment easier, and reduces last-minute compliance pressure

When done right, strategic CSR improves reputation, attracts talent, reduces risks, and even opens new business opportunities.

Emerging Trends in CSR – 2026

As we move through 2026, a few clear trends are visible. Companies are increasingly linking CSR with Environmental, Social, and Governance (ESG) goals. There is a greater focus on long-term, multi-year projects instead of one-off donations. Technology is being used for real-time monitoring through mobile apps and dashboards. Many firms are also exploring collaborative models where several companies pool resources for a bigger impact. The proposed lowering of CSR thresholds in the 2025 Amendment Bill is also pushing mid-sized companies to start building their CSR capabilities early

Conclusion and Way Forward

The CSR provisions in the Companies Act, 2013, have pushed Indian companies to think beyond profits. Compliance has improved over the years, but there's still a gap between spending the money and creating real, lasting change.My practical recommendations for companies are:

- Treat the CSR Committee as a strategic Board-level body rather than a mere compliance cell.
- Develop a CSR Policy that is closely aligned with the company's vision, core business, and long-term goals.
- Invest in professional expertise and technology for project selection, monitoring, and impact assessment.
- Build strong, transparent partnerships with credible implementing agencies.
- Prepare now for the possible expansion of the CSR net under the Companies (Amendment) Bill, 2025, by strengthening internal systems.

In today's world, where investors and customers care about ESG (Environmental, Social, Governance) factors, good CSR is no longer optional. It's smart business. Companies that embrace both the rules and the spirit of Section 135 will not only stay compliant but also stand out as responsible leaders.