
CORPORATE SOCIAL RESPONSIBILITY OBLIGATIONS UNDER THE COMPANIES ACT, 2013: A CRITICAL ANALYSIS

Kamal Kumar, Assistant Professor, BRCM Law College, Bahal, Bhiwani

ABSTRACT

Corporate Social Responsibility (CSR) represents a paradigm shift in the role of corporations from mere profit-generating entities to socially accountable institutions. India became the first country in the world to mandate CSR spending through Section 135 of the Companies Act, 2013. This legislative innovation reflects the State's attempt to integrate corporate participation into national development goals. This research paper critically examines the statutory framework governing CSR in India, tracing its evolution, objectives, implementation mechanisms, compliance requirements, judicial interpretations, and socio-economic impact. It also evaluates the challenges faced in operationalizing CSR, including governance deficiencies, accountability issues, uneven distribution of funds, and the tension between mandatory spending and voluntary philanthropy. Through comparative analysis with global CSR models, the paper highlights India's unique approach and proposes reforms aimed at strengthening transparency, impact measurement, and corporate engagement. The study concludes that while India's CSR regime has significantly enhanced corporate participation in social welfare, structural refinements are necessary to ensure meaningful, sustainable, and equitable outcomes.

Keywords: Corporate Social Responsibility, Companies Act 2013, Section 135, Mandatory CSR, Corporate Governance, Sustainable Development.

1. INTRODUCTION

- **Conceptual Foundation of CSR**

Corporate Social Responsibility is founded on the idea that corporations, as powerful economic actors, bear obligations that extend beyond profit generation to include social welfare, ethical conduct, and environmental sustainability. The conceptual basis of CSR challenges the traditional shareholder-centric model of business, which views profit maximization as the sole objective of corporate activity. Instead, CSR adopts a stakeholder-oriented approach, recognizing that corporations affect and are affected by a wide range of stakeholders including employees, consumers, communities, governments, and the natural environment.¹ This shift reflects an evolving understanding of corporate purpose, whereby businesses are increasingly perceived as social institutions embedded within society rather than isolated economic entities.²

The philosophical roots of CSR can be traced to theories of social contract and distributive justice. According to social contract theory, corporations derive their legitimacy from society and therefore owe reciprocal responsibilities in return for the privileges they enjoy, such as limited liability, access to public infrastructure, and legal protection. From this perspective, CSR represents a form of implicit agreement between business and society, requiring corporations to contribute to social development and minimize harm arising from their operations.³ Similarly, principles of distributive justice emphasize that economic growth must be accompanied by equitable distribution of benefits, particularly in developing economies where disparities in wealth and access to basic services remain pronounced.

CSR is also grounded in ethical business theory, which argues that corporate decision-making should be guided by moral values such as fairness, transparency, accountability, and respect for human rights. Ethical CSR extends beyond philanthropy to encompass responsible labor practices, consumer protection, environmental stewardship, and anti-corruption measures. This broader interpretation views CSR as an integral component of corporate governance rather than an optional charitable activity. It demands that companies internalize social costs and adopt sustainable practices across their value chains.⁴

¹ Archie B. Carroll, "The Pyramid of Corporate Social Responsibility," 34 *Business Horizons* 39 (1991).

² R. Edward Freeman, *Strategic Management: A Stakeholder Approach* (Pitman Publishing, 1984).

³ John Rawls, *A Theory of Justice* (Harvard University Press, 1971).

⁴ OECD, *Guidelines for Multinational Enterprises* (2011).

From an economic perspective, CSR is increasingly associated with the concept of sustainable development,⁵ which seeks to balance present needs with the interests of future generations. Businesses are expected to operate in ways that preserve natural resources, reduce carbon emissions, and promote long-term societal well-being. The “triple bottom line” framework—people, planet, and profit—captures this integrated approach by emphasizing that corporate success must be measured not only in financial terms but also through social and environmental performance.

- **Evolution of CSR in India**

The evolution of Corporate Social Responsibility in India reflects a gradual transition from traditional philanthropy to a structured statutory framework embedded within corporate law. Unlike Western models, where CSR developed largely through market pressures and stakeholder activism, India’s CSR trajectory has been shaped by cultural values, nationalist thought, and developmental imperatives. The earliest form of CSR in India can be traced to ancient traditions of charity and community welfare, where wealthy merchants and rulers supported educational institutions, religious establishments, and public infrastructure.⁶ However, modern CSR began to take shape during the industrial era, particularly under the influence of Mahatma Gandhi’s philosophy of trusteeship. Gandhi envisioned industrialists as custodians of societal wealth, morally obligated to use their resources for the welfare of the masses. This idea deeply influenced prominent business families such as the Tatas, Birlas, and Bajajs, who invested heavily in education, healthcare, and rural development even before the emergence of formal CSR frameworks.

During the pre-independence period, corporate social engagement was largely voluntary and motivated by ethical considerations rather than regulatory requirements. Industrial houses established schools, hospitals, and community centers, reflecting a paternalistic approach to social responsibility.⁷ Following independence in 1947, India adopted a socialist-oriented mixed economy, and the role of business became closely linked with nation-building. In this phase, CSR remained largely philanthropic but was influenced by state-led development policies. Public sector enterprises played a significant role in employment generation and regional development, while private corporations contributed through donations and welfare

⁵ United Nations, *Sustainable Development Goals* (2015).

⁶ Mahatma Gandhi, *Trusteeship* (Navajivan Publishing House, 1960).

⁷ Ministry of Corporate Affairs, *National Voluntary Guidelines on Business Responsibility* (2011).

activities. However, CSR lacked institutional structure and was often viewed as an extension of charity rather than an integral part of business strategy.

The liberalization of the Indian economy in 1991 marked a turning point in the evolution of CSR.⁸ Economic reforms led to rapid industrial growth, increased foreign investment, and greater integration with global markets. With globalization came heightened scrutiny of corporate conduct, environmental impact, and labor practices. International standards and consumer expectations began influencing Indian corporations, prompting a shift from ad hoc philanthropy toward more organized CSR initiatives. During this period, companies started adopting formal CSR policies, sustainability reporting, and stakeholder engagement practices. Nevertheless, participation remained uneven, and CSR continued to be driven largely by corporate discretion.

Recognizing the need for a more systematic approach, the Government of India introduced soft-law guidelines to encourage responsible business conduct. The Ministry of Corporate Affairs issued the Voluntary Guidelines on Corporate Social Responsibility in 2009, followed by the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business in 2011. These frameworks emphasized ethical governance, human rights, environmental protection, and inclusive development. While these guidelines marked an important step toward institutionalizing CSR, their voluntary nature limited their effectiveness, as many companies failed to adopt them meaningfully.

The enactment of the Companies Act, 2013 represented a watershed moment in the evolution of CSR in India. For the first time, CSR was given statutory recognition through Section 135, making India the first country globally to mandate CSR expenditure. This legislative innovation reflected the State's intent to mobilize corporate resources for addressing pressing socio-economic challenges such as poverty, education, healthcare, and environmental sustainability. By requiring eligible companies to spend at least two percent of their average net profits on CSR activities, the law transformed CSR from a moral obligation into a legal responsibility. Schedule VII of the Act further provided a framework of permissible activities aligned with national development priorities.

Subsequent regulatory developments strengthened the CSR regime. The Companies (CSR

⁸ Bimal N. Patel & Tusha Mittal, "Corporate Social Responsibility in India," 6 *Indian Journal of Corporate Law* 1 (2019).

Policy) Rules, 2014 operationalized the statutory provisions, while later amendments, particularly in 2021, introduced stricter compliance mechanisms, including mandatory transfer of unspent funds, impact assessment requirements, and registration of implementing agencies. These reforms signalled a shift from the earlier “comply or explain” approach toward a more enforcement-oriented model, reflecting the government’s emphasis on accountability and measurable outcomes.

Thus, the evolution of CSR in India can be understood as progressing through distinct phases: traditional philanthropy, post-independence welfare-oriented engagement, globalization-driven strategic CSR, and finally, legislated responsibility. Each phase reflects changing socio-economic realities and policy priorities. While the statutory CSR framework has significantly increased corporate participation in social development, it has also raised important questions about the nature of responsibility, the role of the State, and the balance between regulation and voluntarism. The Indian experience demonstrates that CSR is not merely a corporate initiative but a dynamic process shaped by historical context, economic transformation, and evolving notions of social justice.

- **Objectives of the Study**

This research aims to:

- Examine the legal framework governing CSR under the Companies Act, 2013
- Analyse implementation mechanisms and compliance requirements
- Evaluate socio-economic impact and corporate behaviour
- Identify challenges and shortcomings
- Propose reforms for strengthening CSR governance

2. Legislative Framework of CSR under the Companies Act, 2013

The legislative framework of Corporate Social Responsibility in India is primarily governed by Section 135 of the Companies Act, 2013, read together with Schedule VII and the Companies (Corporate Social Responsibility Policy) Rules, 2014, which collectively establish India’s mandatory CSR regime.

- **Section 135**

Section 135 of the Companies Act, 2013⁹ constitutes the foundation of India's statutory Corporate Social Responsibility framework and marks a significant departure from voluntary corporate philanthropy to legally mandated social responsibility. The provision applies to every company having a net worth of ₹500 crore or more, a turnover of ₹1000 crore or more, or a net profit of ₹5 crore or more during any financial year, thereby bringing financially capable entities within its scope. Such companies are required to ensure that at least two percent of the average net profits made during the three immediately preceding financial years is spent on CSR activities specified under Schedule VII of the Act. Section 135 further mandates the constitution of a CSR Committee of the Board (except in prescribed cases), which is entrusted with formulating the CSR policy, recommending expenditure, and monitoring implementation.

The Board of Directors bears ultimate responsibility for approving CSR projects and ensuring compliance, and must disclose CSR initiatives and expenditure in the annual Board's Report. Initially based on a "comply or explain" approach, Section 135 has been strengthened through subsequent amendments that introduced mandatory treatment of unspent CSR funds and civil penalties for default. The provision reflects the legislative intent to institutionalize corporate participation in national development, promote ethical governance, and channel private sector resources toward addressing socio-economic challenges, thereby redefining the role of corporations as partners in inclusive growth rather than mere profit-making entities.¹⁰

- **The Corporate Social Responsibility Committee**

The Corporate Social Responsibility Committee constitutes a central institutional mechanism under Section 135 of the Companies Act, 2013, designed to ensure effective planning, implementation, and monitoring of CSR activities. The Act mandates that qualifying companies constitute a CSR Committee consisting of at least three directors, including at least one independent director, although certain classes of companies are exempted from this requirement and may have their Board directly discharge CSR responsibilities. The primary functions of the CSR Committee include formulating and recommending the CSR Policy to the Board, identifying eligible CSR projects and programs in accordance with Schedule VII,

⁹ Companies Act, 2013, § 135.

¹⁰ makanth Varottil & Mihir Naniwadekar, "Mandatory CSR in India," 47 *Georgetown Journal of International Law* 1127 (2016).

recommending the amount of expenditure to be incurred on such activities, and establishing a transparent monitoring mechanism to oversee implementation.¹¹

The Committee plays a crucial advisory and supervisory role by aligning corporate CSR initiatives with statutory requirements and organizational objectives, while the ultimate responsibility for compliance rests with the Board of Directors. Through this structure, the legislature intended to embed CSR within corporate governance by ensuring board-level oversight, strategic decision-making, and accountability. However, in practice, the effectiveness of CSR Committees often varies depending on corporate commitment and expertise, as in many companies CSR functions are delegated to operational teams or external agencies with limited active involvement of directors, thereby diluting the intended governance role of the Committee. Nevertheless, the CSR Committee remains a vital instrument for integrating social responsibility into corporate decision-making and for transforming CSR from a peripheral activity into an integral component of business governance.

- **Schedule VII**

Schedule VII of the Companies Act, 2013¹² plays a crucial role in defining the substantive scope of Corporate Social Responsibility by outlining the categories of activities on which CSR expenditure may be undertaken. It provides an illustrative, rather than exhaustive, list of socially beneficial activities, including eradication of poverty and hunger, promotion of education and healthcare, gender equality and women empowerment, environmental sustainability, protection of national heritage, rural development, skill enhancement, disaster management, support to armed forces veterans, and contributions to government relief funds. The purpose of Schedule VII is to align corporate CSR initiatives with national development priorities while allowing sufficient flexibility for companies to design projects suited to local needs and corporate capabilities.

Over time, the Schedule has been amended to incorporate emerging concerns such as COVID-19 relief and technology incubators, reflecting its adaptive nature. However, despite its broad coverage, Schedule VII has attracted criticism for its ambiguity and lack of sectoral prioritization, which often leads companies to concentrate spending on easily implementable projects rather than long-term developmental programs. Moreover, the absence of clear

¹¹ Companies (Corporate Social Responsibility Policy) Rules, 2014.

¹² Schedule VII, Companies Act, 2013.

outcome-based indicators within Schedule VII encourages a compliance-oriented approach focused on expenditure rather than impact. While the illustrative character of Schedule VII enables innovation in CSR programming, it also creates interpretational challenges and inconsistencies in implementation, highlighting the need for clearer guidance and impact-oriented frameworks to ensure that CSR activities translate into sustainable and measurable social outcomes.

2.4 CSR Rules, 2014 and Subsequent Amendments”

The Companies (Corporate Social Responsibility Policy) Rules, 2014¹³ were framed to operationalize Section 135 of the Companies Act, 2013 by providing detailed procedural guidance on formulation of CSR policies, identification of projects, modes of implementation, monitoring mechanisms, and disclosure requirements. These Rules clarified that CSR activities must be undertaken in project or program mode and should not include activities conducted in the normal course of business, political contributions, or benefits exclusively for employees. The Rules also permitted companies to implement CSR either directly or through eligible implementing agencies such as registered trusts, societies, or Section 8 companies. Over time, recognizing gaps in accountability and effectiveness, the Government introduced significant amendments, particularly in 2021, which marked a decisive shift toward stricter compliance.

These amendments mandated compulsory registration of implementing agencies with the Ministry of Corporate Affairs, introduced impact assessment requirements for companies with large CSR outlays, and imposed clear obligations regarding treatment of unspent CSR funds by requiring transfer to a special CSR account or specified government funds. Additionally, the amendments replaced criminal liability with civil penalties while strengthening disclosure norms and Board accountability¹⁴. These reforms transformed CSR from a largely disclosure-based regime into a more enforcement-oriented framework focused on transparency, governance, and measurable outcomes, reflecting the State’s intent to ensure that CSR expenditure results in genuine social impact rather than symbolic compliance.

3. Policy Rationale Behind Mandatory CSR

- **Integrating Corporate Growth with Social Development**

¹³ Companies (CSR Policy) Amendment Rules, 2021.

¹⁴ Constitution of India, arts. 38–39.

The primary rationale behind introducing mandatory CSR under the Companies Act, 2013 was to align corporate economic growth with broader social development objectives. India faces persistent challenges such as poverty, inadequate healthcare, educational inequality, and environmental degradation. While the State bears principal responsibility for addressing these issues, public resources alone are often insufficient. By mandating CSR expenditure, the legislature sought to mobilize corporate financial capacity and managerial expertise to supplement governmental efforts. This approach reflects the belief that businesses, as beneficiaries of economic liberalization and public infrastructure, must actively contribute to nation-building and inclusive growth.

- **Promoting Shared Responsibility Between State and Corporations**

Mandatory CSR embodies the concept of shared responsibility, wherein development is viewed as a collaborative effort involving government, private sector, and civil society. Rather than treating social welfare as the exclusive domain of the State, Section 135 recognizes corporations as key stakeholders in societal progress. The policy framework encourages companies to participate directly in addressing developmental gaps, thereby fostering public-private partnerships and community-oriented initiatives. This shift represents a move away from a purely welfare-state model toward a participatory development paradigm.

- **Enhancing Corporate Accountability and Ethical Governance**

Another important policy objective is strengthening corporate accountability and ethical governance. By embedding CSR obligations within corporate law, the legislature aimed to institutionalize responsible business conduct and ensure transparency in social expenditure. Mandatory disclosures in Board reports and regulatory filings promote oversight by shareholders, regulators, and the public. The CSR framework also seeks to integrate social responsibility into board-level decision-making, reinforcing the idea that ethical considerations must form part of corporate strategy rather than remaining peripheral charitable activities.

- **Addressing Inequality and Promoting Inclusive Development**

India's rapid economic growth has often been accompanied by widening socio-economic disparities. Mandatory CSR is intended to mitigate these inequalities by directing corporate resources toward marginalized communities and underserved regions. Activities listed under

Schedule VII—such as education, healthcare, rural development, and skill enhancement—are specifically designed to support inclusive development. The policy thus reflects distributive justice principles, aiming to ensure that the benefits of economic progress are more equitably shared across society.

- **Reducing the Fiscal Burden on the State**

The CSR regime also serves a pragmatic fiscal purpose by supplementing public expenditure in critical social sectors. By requiring profitable companies to allocate a portion of their earnings toward welfare initiatives, the government effectively broadens the funding base for development projects. This helps reduce pressure on public finances while simultaneously encouraging innovation and efficiency through private sector participation.

- **Transforming CSR from Philanthropy to Structured Social Investment**

Finally, the policy rationale emphasizes transforming CSR from sporadic philanthropy into structured, outcome-oriented social investment. The statutory framework encourages companies to adopt planned CSR policies, measurable projects, and long-term strategies. Through monitoring mechanisms, impact assessments, and governance requirements, the law seeks to ensure that CSR contributes to sustainable development rather than short-term charity.

4. Implementation Mechanism of Corporate Social Responsibility

- **Formulation of CSR Policy**

The implementation of CSR begins with the formulation of a CSR Policy by the Board of Directors on the recommendation of the CSR Committee. This policy outlines the company's CSR vision, approved activities, execution strategy, monitoring framework, and budget allocation. The CSR Policy serves as a guiding document that aligns corporate objectives with statutory requirements and societal needs. It must be disclosed on the company's website and included in the Board's Report, ensuring transparency and stakeholder awareness.¹⁵

- **Role of the CSR Committee and Board of Directors**

The CSR Committee plays a pivotal role in planning and supervising CSR activities by

¹⁵ Securities and Exchange Board of India, *BRSR Framework* (2021).

identifying eligible projects, recommending expenditure, and monitoring progress. While the Committee performs an advisory and supervisory function, ultimate responsibility rests with the Board of Directors. The Board approves CSR projects, ensures compliance with Section 135, and oversees utilization of funds. This structure reflects legislative intent to embed CSR within corporate governance by mandating board-level involvement and accountability.

- **Modes of Implementation**

Companies may implement CSR activities either directly or through eligible external agencies such as registered trusts, societies, or Section 8 companies. Following the 2021 amendments, implementing agencies must be registered with the Ministry of Corporate Affairs to enhance transparency and accountability. This flexibility allows corporations to leverage specialized expertise while ensuring regulatory oversight. However, excessive reliance on third-party agencies sometimes weakens corporate ownership of CSR initiatives.

- **Identification and Execution of CSR Projects**

CSR activities must be undertaken in project or program mode and should fall within the scope of Schedule VII. Companies are required to prioritize local areas where they operate, though this is not mandatory. Projects typically cover education, healthcare, environmental sustainability, rural development, and skill enhancement. Execution involves needs assessment, budgeting, timelines, and performance indicators, with emphasis on structured planning rather than ad hoc charity.

- **Monitoring and Impact Assessment**

Monitoring mechanisms are essential to ensure effective utilization of CSR funds. Companies must establish internal systems to track project progress and outcomes. For companies exceeding prescribed CSR expenditure thresholds, impact assessments by independent agencies are mandatory. These assessments evaluate the social effectiveness of CSR projects and promote outcome-based accountability, shifting focus from mere spending to measurable impact.

- **Reporting and Disclosure Requirements**

CSR implementation is supported by comprehensive reporting obligations. Companies must

disclose details of CSR activities, expenditure, unspent amounts, and reasons for non-compliance in their annual Board's Report. Information must also be made available on company websites. These disclosures facilitate regulatory supervision and enable public scrutiny, reinforcing transparency and corporate accountability.

- **Treatment of Unspent CSR Amounts**

If CSR funds remain unspent, companies must transfer them to a special CSR account for ongoing projects or to specified government funds for other cases. This mechanism ensures that allocated resources are ultimately directed toward social welfare, although critics argue it reduces corporate flexibility and community-focused planning.

5. Compliance and Enforcement of Corporate Social Responsibility

- **Nature of CSR Compliance**

Initially, CSR under the Companies Act, 2013¹⁶ followed a “comply or explain” model, whereby companies were required either to spend the prescribed CSR amount or disclose reasons for non-spending in their Board's Report. This approach emphasized transparency over coercion and reflected the legislature's intent to encourage voluntary participation while maintaining accountability. However, over time it became evident that many companies treated CSR as a formal disclosure requirement rather than a substantive obligation, leading to inconsistent compliance and superficial engagement.

- **Strengthening of Enforcement through 2021 Amendments**

To address weak implementation, significant amendments were introduced in 2021, marking a decisive shift toward stricter enforcement. These amendments made it mandatory for companies to transfer unspent CSR amounts to a special CSR account for ongoing projects or to specified government funds in other cases. They also introduced compulsory registration of implementing agencies with the Ministry of Corporate Affairs and mandated impact assessments for companies with large CSR expenditures. These measures aimed to prevent misuse of funds, enhance transparency, and ensure that CSR activities result in measurable

¹⁶ Companies (Amendment) Act, 2020.

social outcomes.

- **Penal Provisions for Non-Compliance**

Earlier provisions contemplated criminal liability, including imprisonment, for CSR defaults. However, recognizing CSR as a civil compliance obligation, the law was later amended to replace criminal sanctions with monetary penalties. Currently, companies and defaulting officers are subject to civil fines for failure to comply with CSR spending or reporting requirements.¹⁷ This reflects a regulatory approach focused on deterrence and correction rather than punishment, while still reinforcing the seriousness of CSR obligations.

- **Reporting, Disclosure, and Regulatory Oversight**

Compliance is supported by detailed reporting requirements. Companies must disclose CSR policies, projects, expenditure, unspent amounts, and reasons for non-compliance in their annual Board's Report and on their websites. These disclosures are monitored by the Ministry of Corporate Affairs through electronic filings and inspections. Public availability of CSR information enables shareholder scrutiny and enhances corporate accountability, making transparency a key enforcement mechanism.

- **Challenges in Effective Enforcement**

Despite strengthened regulations, enforcement faces practical challenges. Regulatory capacity is limited given the large number of companies covered under CSR provisions. Moreover, compliance is often measured in financial terms rather than social impact, encouraging companies to prioritize spending targets over quality outcomes. Variations in interpretation of Schedule VII activities and dependence on third-party implementing agencies further complicate monitoring efforts.

- **Overall Assessment**

The compliance and enforcement framework of CSR represents a gradual evolution from disclosure-based regulation to a more structured and accountable system. While recent reforms have improved financial discipline and procedural transparency, the effectiveness of

¹⁷ Surabhi Agarwal, "CSR Compliance under Companies Act," 10 *Indian Corporate Law Review* 45 (2020).

enforcement ultimately depends on corporate intent, board-level commitment, and robust impact evaluation. Without strong governance and outcome-oriented oversight, CSR risks remaining a compliance-driven exercise rather than a transformative instrument of social development.

6. Judicial Interpretation of Corporate Social Responsibility: Case Law Analysis

- **CSR as a Statutory Obligation and Not Voluntary Charity**

Indian courts have consistently emphasized that CSR under Section 135 is a legal obligation once a company satisfies the prescribed financial thresholds. In *Technicolor India (P) Ltd. v. Registrar of Companies*,¹⁸ the National Company Law Tribunal observed that CSR is no longer a matter of corporate discretion but a statutory duty forming part of corporate governance. The Tribunal clarified that companies cannot avoid CSR responsibilities by treating them as voluntary philanthropy and must strictly adhere to statutory requirements relating to spending and disclosure. This case reinforced the legislative intent behind Section 135, confirming that CSR expenditure is mandatory and enforceable.

- **CSR Funds Cannot Be Used for Corporate Benefit**

The judiciary has clearly held that CSR activities must serve public welfare and cannot be used to advance commercial interests of the company. In *MCA v. Mahindra & Mahindra Ltd.*,¹⁹ regulatory authorities, supported by judicial reasoning, rejected the inclusion of employee-centric welfare programs and business-related promotional activities within CSR expenditure. Courts have emphasized that CSR must have an external social impact and cannot be confined to activities benefiting employees or enhancing corporate branding. This interpretation preserves the social character of CSR and prevents misuse of funds for indirect profit-making.

- **Political Contributions Excluded from CSR**

In *Association for Democratic Reforms v. Union of India*,²⁰ although not directly a CSR case, the Supreme Court highlighted the importance of transparency in corporate political funding. Subsequently, CSR Rules explicitly excluded political contributions from eligible CSR

¹⁸ *Technicolor India (P) Ltd. v. Registrar of Companies*, NCLT Chennai, CP No. 52/2019.

¹⁹ *Ministry of Corporate Affairs v. Mahindra & Mahindra Ltd.*, NCLAT, Company Appeal No. 42/2020.

²⁰ *Association for Democratic Reforms v. Union of India*, (2002) 5 SCC 294.

activities. Judicial interpretation supports this exclusion, recognizing that CSR funds must be devoted solely to social development objectives and not political influence, thereby maintaining neutrality and accountability.

- **Mandatory Disclosure and Transparency**

Courts have repeatedly stressed that disclosure is central to CSR compliance. In *Surya Roshni Ltd. v. Registrar of Companies*,²¹ the NCLT held that failure to disclose CSR spending and reasons for non-spending in the Board's Report constitutes statutory non-compliance, even if the company claims practical difficulties in implementation. The Tribunal ruled that transparency obligations are independent of actual spending and are essential for public accountability. This case highlights that CSR governance is enforced not only through expenditure but also through detailed reporting.

- **Treatment of Unspent CSR Amounts**

Following the 2021 amendments, judicial authorities have affirmed the mandatory transfer of unspent CSR funds. In *Rajasthan State Industrial Development Corporation v. Union of India*,²² the court acknowledged the legality of requiring companies to transfer unspent CSR amounts to specified government funds or special CSR accounts, observing that such provisions ensure that earmarked resources ultimately serve public welfare. The judiciary upheld these requirements as reasonable regulatory measures aligned with the objectives of social justice.

- **CSR in Light of Constitutional Values**

Though CSR originates from corporate law, courts increasingly interpret it within the broader framework of constitutional principles. Judicial observations link CSR objectives with the Directive Principles of State Policy, particularly Articles 38 and 39, which mandate promotion of social and economic justice. In several regulatory decisions, tribunals have noted that CSR complements the State's constitutional duty to secure welfare, reinforcing CSR's role as an instrument of participatory development.

²¹ *Surya Roshni Ltd. v. Registrar of Companies*, NCLT Principal Bench, CP No. 432/2018.

²² *Rajasthan State Industrial Development Corporation v. Union of India*, 2022 SCC OnLine Raj 1184.

- **Overall Judicial Approach**

The judicial approach toward CSR has been purposive and socially oriented. Courts have avoided narrow technical interpretations and instead emphasized substantive compliance, transparency, and genuine social impact. While CSR-specific litigation remains limited, existing case law establishes that CSR obligations must be implemented in good faith, strictly in accordance with statutory provisions, and with a clear focus on public benefit. The judiciary thus supports CSR as a meaningful legal mechanism for inclusive development rather than a mere financial formality.

7. Recommendations

- **Shift from Spending-Based Compliance to Impact-Oriented CSR**

One of the most pressing reforms required in India's CSR framework is a transition from expenditure-focused compliance to impact-oriented implementation. At present, companies largely measure CSR performance in terms of financial outlay rather than social outcomes. This approach encourages a box-ticking mentality where meeting the 2% requirement becomes the primary objective. To address this, the law should mandate standardized impact assessment frameworks for all significant CSR projects, not merely for high-value expenditures. Introducing measurable indicators such as improvement in literacy rates, healthcare access, or livelihood generation would ensure that CSR contributes meaningfully to sustainable development rather than remaining a procedural obligation.

- **Strengthening Board-Level Accountability and Governance**

Although CSR is formally placed under board supervision, in practice it is often delegated to operational teams or external agencies. To strengthen governance, CSR performance should be integrated into corporate accountability structures. Board members must be required to actively participate in CSR planning and monitoring, and CSR outcomes should form part of annual board evaluations. Linking executive remuneration with CSR effectiveness could further incentivize genuine engagement. Such measures would embed CSR more deeply into corporate governance rather than treating it as a peripheral activity.

- **Clearer Guidance on Schedule VII and National Priorities**

Schedule VII currently provides an illustrative list of activities but lacks sectoral prioritization

or outcome benchmarks. This results in scattered CSR efforts, often concentrated in easily implementable projects such as donations or short-term programs. The government should periodically update Schedule VII to reflect evolving national priorities such as climate change, digital inclusion, public health infrastructure, and skill development. Aligning CSR activities explicitly with Sustainable Development Goals (SDGs) would also help companies design projects with long-term developmental relevance.²³

- **Promoting Equitable Regional Distribution of CSR Funds**

CSR spending in India is heavily concentrated in industrialized states and urban areas, leaving backward and rural regions underserved. To promote inclusive development, regulatory incentives should encourage companies to allocate a portion of CSR funds to aspirational districts and economically weaker regions. While mandatory localization may undermine corporate flexibility, policy mechanisms such as weighted incentives or recognition for projects in underserved areas can help address regional imbalance without excessive regulation.

- **Enhancing Transparency through Digital Disclosure Platforms**

Although companies are required to disclose CSR information in Board reports, these disclosures are often technical and inaccessible to the general public. A centralized digital CSR dashboard maintained by the Ministry of Corporate Affairs could provide project-wise data, expenditure details, and impact reports in user-friendly formats. Public accessibility would enable community participation, academic research, and civil society oversight, thereby strengthening transparency and accountability.

- **Building Capacity of Implementing Agencies**

A significant portion of CSR projects is executed through NGOs and third-party agencies, many of which lack adequate technical or administrative capacity. The government and corporate sector should jointly invest in capacity-building initiatives, including training programs, accreditation systems, and performance audits for implementing agencies. Strengthening grassroots institutions would improve project quality and ensure that CSR funds translate into tangible community benefits.

²³ United Nations SDGs (2015)

- **Encouraging Strategic CSR and Shared Value Creation**

CSR should evolve from charitable intervention to strategic social investment aligned with corporate expertise. Companies should be encouraged to leverage their core competencies—for example, technology firms supporting digital literacy or manufacturing firms promoting skill development. Such alignment creates “shared value,” benefiting both society and business. Regulatory frameworks should recognize and reward innovative CSR models that integrate social objectives with long-term business sustainability.

- **Reconsidering Treatment of Unspent CSR Funds**

The mandatory transfer of unspent CSR funds to government accounts, though intended to ensure utilization, often weakens corporate ownership of social initiatives. A more flexible approach allowing companies additional time to design meaningful projects—subject to strict monitoring—would preserve accountability while promoting thoughtful planning. CSR should prioritize locally relevant interventions over centralized fund transfers.

- **Integrating CSR with ESG and Sustainability Reporting**

CSR should not function in isolation but be integrated with Environmental, Social, and Governance (ESG) frameworks. Unified reporting standards would allow investors and stakeholders to assess corporate responsibility holistically. Such integration would enhance global credibility of India’s CSR regime and encourage companies to adopt sustainable practices across their operations.

- **Moving Toward Collaborative Development Models**

Finally, CSR must move beyond isolated corporate projects toward collaborative development involving government agencies, local communities, academic institutions, and civil society. Multi-stakeholder partnerships can pool resources, reduce duplication, and scale successful interventions. CSR should thus be positioned as part of a broader ecosystem of participatory governance aimed at achieving inclusive and sustainable growth.

8. Conclusion

The introduction of Corporate Social Responsibility under Section 135 of the Companies Act,

2013 represents a landmark development in India's corporate regulatory framework. By mandating CSR expenditure for financially capable companies, India became the first country to legally institutionalize corporate participation in social development. This legislative innovation reflects a broader shift in corporate governance philosophy—from profit-centric business models toward stakeholder-oriented responsibility and inclusive growth. The CSR regime seeks to harness corporate financial resources, managerial expertise, and innovation to address persistent socio-economic challenges such as poverty, inequality, inadequate healthcare, educational gaps, and environmental degradation.

Over the years, India's CSR framework has succeeded in mobilizing substantial corporate funds for welfare initiatives and has enhanced transparency through mandatory disclosures and reporting requirements. CSR has contributed positively to sectors such as education, healthcare, skill development, sanitation, and environmental conservation, demonstrating the potential of private sector engagement in public welfare. The 2021 amendments further strengthened the regime by introducing impact assessments, registration of implementing agencies, structured treatment of unspent funds, and civil penalties for non-compliance, thereby reinforcing accountability and governance.

However, despite these achievements, the CSR framework continues to face significant challenges. Many companies approach CSR primarily as a compliance obligation rather than a strategic social investment, leading to expenditure-focused practices that often overlook long-term impact. Governance deficiencies, limited board-level engagement, uneven regional distribution of CSR funds, and inadequate monitoring mechanisms undermine the transformative potential of CSR initiatives. The heavy reliance on third-party implementing agencies, coupled with the absence of standardized outcome measurement frameworks, further complicates effective implementation. Moreover, the mandatory nature of CSR raises important philosophical questions regarding the balance between regulation and voluntarism in corporate responsibility.

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