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CSR in Indian Companies: From Philanthropy to Legal Mandate

DR. ASWATHI SUKUMARAN* 

ABSTRACT

Corporate social responsibility (CSR) in India has changed considerably from the traditional model of corporate charity and the Gandhian trusteeship model. It is now a mandatory, strategic business framework that builds environmental and social benefits into core operations. Rooted in India's long heritage of business responsibility, CSR underwent a significant transition after the economic liberalization of the 1990s, moving from philanthropy-based methods to a multi-stakeholder model that addresses financial stakeholders, workers and communities. CSR became a formal accountability mechanism on 1 April 2014, when Section 135 of the landmark Companies Act, 2013 came into force, requiring qualifying companies to spend at least 2% of their average net profits on CSR initiatives. Today, CSR goes beyond philanthropic contributions to serve as a crucial strategic instrument that promotes ethical behavior and sustainable environmental practices while aligning company operations with societal expectations. This paper analyzes the current landscape of CSR in India, tracing its development from conventional philanthropy to a mandatory strategic business model, and examines present practices, implementation hurdles and future possibilities. It investigates the regulatory framework governing CSR, including the Companies Act, 2013, the attendant compliance obligations and the mechanisms for enforcement. The paper seeks to contribute to the academic discourse on CSR in India and to inform policymakers, businesses, academia and civil society about the opportunities and challenges in fostering corporate sustainability and social welfare.

Keywords: CSR, Companies, India, Corporate Governance, CSR Compliance

I. INTRODUCTION

Corporate social responsibility (CSR) represents a business paradigm in which organizations incorporate social, environmental and ethical considerations into their operational frameworks and stakeholder engagements, moving beyond a singular emphasis on economic profitability.¹ CSR embodies the notion that enterprises ought to conduct their operations in alignment with principles and policies that have a beneficial influence on both society and the environment.

* Author is an Assistant Professor at the School of Law, Vels Institute of Science, Technology & Advanced Studies (VISTAS), Chennai, Tamil Nadu, India. ORCID: <https://orcid.org/0009-0004-4870-9892>

¹ See generally JAMES S. COLEMAN, FOUNDATIONS OF SOCIAL THEORY (1990).

Informed by the principles of the triple bottom line, which emphasizes the interconnectedness of social, environmental and economic factors, CSR encompasses a range of responsibilities including environmental stewardship, ethical conduct, philanthropic endeavors and economic accountability.² This notion gained widespread acceptance in the 2000s, propelled by international frameworks such as the UN Global Compact.³ In India, it was codified as a requirement under the Companies Act, 2013, which mandates that qualifying companies spend a portion of their profits on corporate social responsibility initiatives.⁴

Companies are expected to contribute to social and environmental well-being in addition to making profits, and CSR has become a central idea in global corporate governance.⁵ CSR in India took a significant turn when the Companies Act, 2013 required large companies to spend a percentage of their average net profits on specified social activities. The adoption of Section 135 of the Companies Act, which mandates CSR for companies that meet certain thresholds, marks a change from voluntary to mandatory involvement in social development.⁶ The purpose of this study is to critically analyze the CSR measures in the Companies Act, 2013, evaluate their efficacy, and pinpoint the difficulties businesses face in adhering to these rules.

II. EVOLUTION OF CSR

The development of CSR in India has undergone significant transformation over the years. Initially, the concept was largely viewed as a voluntary initiative by businesses.⁷ It has, however, gradually evolved into a more structured and mandatory framework, particularly with the introduction of legislative measures. This shift reflects a growing recognition of the role that corporations play in societal welfare and of the expectation that they contribute positively to the communities in which they operate.⁸ The increasing emphasis on accountability and

² See Herman Aguinis & Ante Glavas, *What We Know and Don't Know About Corporate Social Responsibility: A Review and Research Agenda*, 38 J. MGMT. 932, 933 (2012), <https://doi.org/10.1177/0149206311436079> (defining CSR as “context-specific organizational actions and policies that take into account stakeholders’ expectations and the triple bottom line of economic, social, and environmental performance”); see generally E. Merrick Dodd, Jr., *For Whom Are Corporate Managers Trustees?*, 45 HARV. L. REV. 1145 (1932), <https://doi.org/10.2307/1331697>.

³ See Aruna Das Gupta, *Social Responsibility in India Towards Global Compact Approach*, 34 INT’L J. SOC. ECON. 637 (2007), <https://doi.org/10.1108/03068290710778642>.

⁴ The Companies Act, No. 18 of 2013, INDIA CODE (2013), § 135.

⁵ DAVID CHANDLER, *STRATEGIC CORPORATE SOCIAL RESPONSIBILITY: SUSTAINABLE VALUE CREATION* (6th ed. 2022).

⁶ Akanksha Gautam, Arghya Sarkar & Raj Vijay Singh, *Corporate Social Responsibility: A Legal Perspective W.R.T. Sec. 135*, 2 J. MKTG. & SOC. RSCH. 159 (2025), <https://jmsr-online.com/article/corporate-social-responsibility-a-legal-perspective-w-r-t-sec-135-320/>.

⁷ INDIRA GANDHI NAT’L OPEN UNIV., *Unit 9: CSR in Indian Context*, in MMPC-020 BUSINESS ETHICS AND CSR, BLOCK 3: CORPORATE SOCIAL RESPONSIBILITY IN INDIA 129, 132, 139 (2022), <https://egyankosh.ac.in/bitstream/123456789/92306/1/Unit-9.pdf>.

⁸ Ish Kumar, *Corporate Social Responsibility in India: Legal Framework and Contemporary Implications*, 7 INT’L J.L. POL’Y & SOC. REV. 186 (2025), <https://www.lawjournals.net/archives/2025/vol7/issue2/7093>.

transparency has further shaped the discourse surrounding corporate responsibility in the Indian context.

The progression of CSR in India illustrates the nation's transition from a conventional model of philanthropy to a modern structure that requires corporate accountability in social, environmental and governance matters. In the period preceding industrialization, which lasted until about 1850, prosperous merchants viewed social upliftment as a natural extension of their religious and cultural values. They built temples and helped society through famines and epidemics by providing food and money, without pursuing any immediate business benefit.⁹ With industrialization from the mid-nineteenth century, industrial families such as the Tatas, Birlas, Godrejs and Singhanias carried this tradition forward, funding schools, hospitals and temples.¹⁰

This philanthropic approach, deeply embedded in India's traditions of trusteeship and community management, laid the foundation for corporate social responsibility at a time when corporate entities were scarce and intricately linked with social hierarchies. The independence movement initiated a subsequent phase in which Mahatma Gandhi's concept of trusteeship encouraged industrialists to regard their wealth as held in trust for the benefit of society.¹¹ Under this influence, business houses established trusts for schools, colleges and training institutions and supported rural development initiatives that harmonized philanthropic efforts with the goals of nation-building.¹² Notwithstanding these initiatives, corporate social responsibility remained predominantly voluntary, shaped more by ethical considerations than by legal mandates.¹³ The third phase, spanning 1960 to 1980, coincided with India's "mixed economy" policies, during which public sector undertakings (PSUs) played a predominant role in industrial activity, and private enterprise was governed by rigorous licensing, taxation and regulatory frameworks.¹⁴

Restrictive constraints on the private sector encouraged corporate malpractices, which in turn prompted early labor, environmental and corporate governance legislation, even as PSUs took on responsibility for welfare-oriented programs. The limited effectiveness of state-driven development, however, highlighted the need for private businesses to support public initiatives and to engage directly with local communities.¹⁵ The fourth phase, from the 1980s onwards,

⁹ Sawati Nagwan, *Evolution of Corporate Social Responsibility in India*, 3 INT'L J. LATEST TECH. ENG'G, MGMT. & APPLIED SCI. 164, 164 (2014), <https://www.ijltemas.in/DigitalLibrary/Vol.3Issue7/164-167.pdf>.

¹⁰ *Id.*; INDIRA GANDHI NAT'L OPEN UNIV., *supra* note 7, at 130.

¹¹ Nagwan, *supra* note 9, at 164; INDIRA GANDHI NAT'L OPEN UNIV., *supra* note 7, at 130.

¹² Nagwan, *supra* note 9, at 164.

¹³ KSHAMA V. KAUSHIK, *CSR IN INDIA: STEERING BUSINESS TOWARD SOCIAL CHANGE* (1st ed. 2017).

¹⁴ Nagwan, *supra* note 9, at 164–65; INDIRA GANDHI NAT'L OPEN UNIV., *supra* note 7, at 130–31.

¹⁵ Nagwan, *supra* note 9, at 165; INDIRA GANDHI NAT'L OPEN UNIV., *supra* note 7, at 131.

gathered pace with the liberalization of the 1990s, when globalization and deregulation drew Indian companies into fiercely competitive world markets and required compliance with international labor and environmental standards.¹⁶

Organizations began to incorporate corporate social responsibility into their core business strategies, creating specialized CSR teams, developing policies and setting aside budgets for initiatives in health, education, livelihood improvement and environmental sustainability.¹⁷ This strategic shift was formalized by the Companies Act, 2013, which for the first time made CSR compulsory for every company with a net worth of ₹500 crore or more, a turnover of ₹1,000 crore or more, or a net profit of ₹5 crore or more during the immediately preceding financial year. Such companies must spend at least 2% of their average net profits made during the three immediately preceding financial years on activities within Schedule VII to the Act and, unless the amount to be spent does not exceed ₹50 lakh, must constitute a CSR committee of the board to oversee the policy, its implementation and its disclosure.¹⁸

In the significant environmental case of *M.C. Mehta v. Kamal Nath*, the Supreme Court applied the polluter pays principle, establishing the direct accountability of a company for the environmental damage it had caused and thereby broadening the framework of corporate responsibility to encompass legal duties of ecological preservation.¹⁹ The ruling illustrates that corporate responsibility goes beyond mere voluntary philanthropy and encompasses enforceable obligations, reinforcing the legal underpinnings of contemporary CSR practice in India. Today, corporate social responsibility in India has evolved into a complex field that integrates legal obligations with strategic initiatives aimed at community development, environmental stewardship and engagement with stakeholders.²⁰ Corporations regularly produce comprehensive CSR reports, collaborate with governmental entities and non-governmental organizations, and use digital platforms to enhance transparency and evaluate their impact.

Despite notable advances in integrating corporate social responsibility within governance frameworks and aligning efforts with sustainable development objectives, obstacles remain in

¹⁶ Nagwan, *supra* note 9, at 165; INDIRA GANDHI NAT'L OPEN UNIV., *supra* note 7, at 131.

¹⁷ Nagwan, *supra* note 9, at 165.

¹⁸ The Companies Act, No. 18 of 2013, INDIA CODE (2013), § 135(1), (3), (5), (9), sch. VII. Sub-section (1) is quoted as amended by the Companies (Amendment) Act, 2017, No. 1 of 2018, INDIA CODE (2018), which substituted "the immediately preceding financial year" for "any financial year" with effect from 19 September 2018. Sub-section (9), which dispenses with the committee where the amount to be spent under sub-section (5) does not exceed fifty lakh rupees and assigns its functions to the Board, was inserted by the Companies (Amendment) Act, No. 29 of 2020, INDIA CODE (2020), with effect from 22 January 2021.

¹⁹ *M.C. Mehta v. Kamal Nath*, (1997) 1 SCC 388 (India).

²⁰ Kaushik, *supra* note 13.

achieving consistent compliance, fostering stakeholder engagement and assessing long-term impact.²¹ To address these gaps, the legal framework and corporate governance standards must advance to require thorough impact evaluation and continuous improvement. Ultimately, a transition towards a model of corporate social responsibility that prioritizes sustainable outcomes rather than mere financial outlay is essential for fostering enduring social change.

III. THE IMPLICATIONS OF CSR

A. Lack of strategic focus and alignment

Many organizations regard corporate social responsibility as merely a compliance requirement rather than embedding it within their fundamental business strategy. Budgets are frequently assigned at the end of the financial year solely to meet the mandatory 2% spending requirement, leading to disjointed initiatives that lack enduring significance. Projects are often selected on the basis of the subjective preferences of senior management rather than the genuine needs of the community, resulting in a lack of alignment with overarching business objectives.²²

B. Inadequate impact measurement and monitoring

Measuring real CSR results remains one of the primary challenges. Businesses invest large sums but seldom monitor the actual results.²³ Most sectors depend on vanity metrics, such as the number of beneficiaries or the amount of rupees spent, rather than meaningful outcomes, and there are no industry-specific indicators. Few businesses carry out third-party assessments to confirm efficacy.

C. Regulatory compliance obligations

The 2% CSR rule imposes comprehensive reporting obligations that pose significant challenges for numerous companies. Severe repercussions for non-compliance tend to instil fear rather than foster an environment conducive to innovation. The prescribed amount must be spent within the financial year or, if unspent, transferred to a fund specified in Schedule VII or, for an

²¹ COMPANY LAW AND CSR: NEW LEGAL AND ECONOMIC CHALLENGES (Ivan Tchotourian ed., 2018).

²² Kaushik, *supra* note 13.

²³ Brenda E. Joyner, Dinah Payne & Cecily A. Raiborn, *Building Values, Business Ethics and Corporate Social Responsibility into the Developing Organization*, 7 J. DEVELOPMENTAL ENTREPRENEURSHIP 113 (2002).

ongoing project, to an Unspent CSR Account, which constrains flexibility.²⁴ The intricate rules concerning unspent funds and ongoing projects add a further layer of administrative complexity.

D. Restricted community participation and challenges of trust

Communities frequently perceive corporate social responsibility as an act of charity rather than as a collaborative partnership.²⁵ Organizations often implement initiatives in a hierarchical manner, neglecting to engage local communities in the planning process. This approach results in diminished participation and raises concerns regarding long-term sustainability. A lack of transparency fosters mistrust, and instances of corruption or mismanagement have adversely affected the reputation of corporate social responsibility in numerous sectors.

E. Disparities in geographic distribution

Corporate social responsibility expenditure is predominantly concentrated in developed regions and urban centers, resulting in a significant shortfall of resources for rural and less developed areas. Approximately 62% of non-governmental organizations operate solely within a single state, which constrains their scope of influence. This geographic disparity results in numerous marginalized communities being excluded from the advantages of CSR initiatives, even as they confront more significant challenges.

F. Concerns about greenwashing and NGO partnerships

Numerous corporations approach corporate social responsibility as a mere obligation rather than a strategic investment in societal well-being. This often results in greenwashing, where organizations assert their commitment to environmental and social responsibility without engaging in substantive action. Furthermore, the connection between corporate donors and the NGOs responsible for implementation is tenuous. Half of the NGOs encounter difficulties related to documentation, while 40% experience delays in the disbursement of funds, and a significant 61% lack expertise in management information systems, which is essential for effective monitoring.

²⁴ The Companies Act, No. 18 of 2013, INDIA CODE (2013), § 135(5)–(7), as amended by the Companies (Amendment) Act, No. 22 of 2019, INDIA CODE (2019), and the Companies (Amendment) Act, No. 29 of 2020, INDIA CODE (2020) (both in force for these purposes from 22 January 2021). Under the second proviso to § 135(5), an unspent amount that does not relate to an ongoing project must be transferred to a fund specified in Schedule VII within six months of the end of the financial year; under § 135(6), an amount unspent on an ongoing project must be transferred within thirty days to an Unspent Corporate Social Responsibility Account and spent within three financial years. The 2019 amendment would have made such default punishable with fine and, for officers in default, with imprisonment or fine or both; before that provision operated, the 2020 amendment substituted § 135(7), with effect from the same date, providing instead for a penalty on the company of twice the amount required to be transferred or one crore rupees, whichever is less, and on every officer in default of one-tenth of that amount or two lakh rupees, whichever is less.

²⁵ Susheela Kaushik, *Non-Governmental Organisations and Development: Some Issues*, in NON-GOVERNMENTAL ORGANISATIONS IN DEVELOPMENT: THEORY AND PRACTICE 69 (Noorjahan Bava ed., 2008).

IV. RECOMMENDATIONS

To overcome the hurdles associated with CSR in India, businesses must first align their CSR activities with strategic business objectives and the Sustainable Development Goals (SDGs), instead of treating CSR as a compliance add-on. This entails incorporating corporate social responsibility into core company strategy and concentrating on national issues including gender equality, healthcare, education and sustainable energy.²⁶ This builds credibility, quantifiable impact and competitive advantage through reputation and talent recruitment. Second, instead of depending on vanity metrics such as the number of beneficiaries or rupees spent, organizations must establish standardized metrics across industries, conduct third-party evaluations to confirm effectiveness, and track actual outcomes so as to build robust monitoring and impact measurement systems. Technology-driven solutions, such as mobile applications for tracking progress, blockchain for transparent tracking of funds, and data analytics, may help to identify high-need regions and ensure accountability.

Establishing partnerships with reputable NGOs and government initiatives is an essential recommendation, as collaboration represents the future of impactful corporate social responsibility.²⁷ Companies are advised to collaborate with reputable non-governmental organizations instead of operating independently. Engaging with government initiatives such as Swachh Bharat, Skill India or Ayushman Bharat can facilitate resource sharing, thereby minimizing expenses and enhancing outreach. Furthermore, the challenges faced by NGOs can be addressed by offering training in documentation and in management information systems. Organizations must at the same time improve community engagement and transparency by moving from charity-based to partnership-based approaches. This involves actively involving local populations in the planning and implementation processes, rather than imposing top-down projects. It is essential to ensure transparency in the distribution of funds and the outcomes of projects, while fostering trust through regular mechanisms for community feedback and maintaining accountability.

To address the skill gaps within corporate social responsibility teams, it is essential to focus on professional capacity and training. This can be achieved through strategic investment in programs that emphasize impact measurement and stakeholder engagement. The recruitment of professionals with relevant expertise in social development is also crucial. Ongoing education

²⁶ See Bakri Hasanuddin et al., *Sustainable Business Practices: Integrating Environmental and Social Responsibility into Management Strategies*, 1 GLOB. INT'L J. INNOVATIVE RSCH. 220 (2024), <https://doi.org/10.59613/global.v1i3.36>.

²⁷ See Nagwan, *supra* note 9, at 165–66; INDIRA GANDHI NAT'L OPEN UNIV., *supra* note 7, at 139.

on regulatory compliance and best practices should be prioritized, alongside the establishment of dedicated CSR departments that are adequately staffed to meet these objectives. Corporations ought also to cultivate shared value by moving beyond conventional corporate social responsibility to address societal challenges while generating profit, through initiatives such as accessible healthcare, rural banking and sustainable agriculture. Additionally, standardized reporting and disclosure mechanisms should be established to ensure consistent and comparable information on CSR performance, while companies actively engage with investors, employees and customers to gather feedback on CSR initiatives. The essential point is that regulatory compliance should not be what defines corporate social responsibility; rather, programs must yield measurable outcomes, foster enduring transformation, and produce both social and business value.

V. CONCLUSIONS

Corporate social responsibility has developed considerably, from its beginnings as a voluntary practice to a legal obligation in numerous jurisdictions. This transformation signifies a profound change in corporate accountability, as businesses increasingly acknowledge their obligation to support the triple bottom line of People, Planet and Profit, moving beyond a singular emphasis on economic profit. The progression of corporate social responsibility illustrates the way businesses have systematically incorporated social and environmental considerations into their fundamental operations, rendering responsible business practices a vital aspect of contemporary corporate strategy.

Notwithstanding this advancement, corporate social responsibility encounters considerable obstacles, such as insufficient regulatory structures, the absence of standardized evaluation metrics, inadequate involvement of stakeholders, and difficulty in assessing authentic impact. The suggestions put forth in this paper offer pragmatic approaches to overcoming these challenges. Ultimately, the future success of corporate social responsibility hinges on reconciling corporate profit with social purpose, ensuring that businesses make significant contributions to sustainable development while preserving their economic viability.
