



Corporate Social Responsibility Under Companies Act, 2013: Legal Obligations s. Voluntary Practices

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Abstract

The Companies Act, 2013 marked a paradigm shift in India's corporate governance landscape by mandating Corporate Social Responsibility (CSR) for eligible companies, transforming what was traditionally a voluntary ethical practice into a statutory obligation. This paper examines the legal framework governing CSR under Section 135 of the Act and analyzes the inherent tension between mandatory compliance and voluntary corporate philanthropy. Through doctrinal analysis and examination of regulatory developments, this study explores whether legislative compulsion can achieve genuine social responsibility or merely creates a compliance-driven formalism. The research reveals that while mandatory CSR has significantly increased corporate social spending, it has also generated interpretive ambiguities, implementation challenges, and questions about the authenticity of corporate commitment. The paper argues that the Indian model represents a unique hybrid approach combining legal obligation with discretionary implementation that challenges traditional distinctions between mandatory regulation and voluntary corporate citizenship. This analysis contributes to broader debates about the role of law in promoting ethical business conduct and the effectiveness of regulatory interventions in corporate governance.

Keywords: - Corporate Social Responsibility, Companies Act 2013, Mandatory CSR, Corporate Governance, Section 135, Social Legislation

I. INTRODUCTION

The enactment of the Companies Act, 2013 represented a watershed moment in Indian corporate law, introducing a legislative mandate that fundamentally altered the relationship between business enterprises and society. Section 135 of the Act, which requires certain companies to spend at least 2% of their average net profits on CSR activities, transformed India into the first country globally to legislate corporate social responsibility (Ministry of Corporate Affairs, 2013). This legislative innovation emerged from a unique socio-economic context where rapid economic liberalization had created significant wealth disparities, and the state sought to harness corporate resources for developmental objectives.

The mandatory CSR provision embodies a conceptual paradox: it uses legal compulsion to achieve what is fundamentally understood as voluntary ethical conduct. Traditional CSR scholarship has emphasized the discretionary nature of corporate social initiatives, arguing that authentic social responsibility emerges from ethical commitment rather than regulatory compliance (Carroll, 1991). The Indian legislation disrupts this paradigm by creating a legal duty to be socially responsible, raising fundamental questions about whether legislated morality can achieve substantive social outcomes or merely generates performative compliance.

This paper examines the theoretical and practical implications of India's mandatory CSR regime, analyzing the tension between legal obligation and voluntary practice. It explores how the legislation has reshaped corporate behavior, the interpretive challenges that have emerged, and the broader implications for understanding the relationship between law and corporate ethics. The analysis is situated within the larger discourse on corporate governance reform and the evolving role of corporations in addressing societal challenges.

II. LEGAL FRAMEWORK OF CSR UNDER THE COMPANIES ACT, 2013

Section 135 of the Companies Act, 2013, establishes a comprehensive regulatory framework for CSR, applicable to companies meeting specific financial thresholds. The provision requires companies with a net worth of ₹500 crore or more, turnover of ₹1,000 crore or more, or net profit of ₹5 crore or more during any financial year to constitute a CSR Committee and undertake CSR activities (Companies Act 2013, § 135). The Act mandates that such companies spend at least 2% of their average net profits from the preceding three financial years on CSR activities aligned with Schedule VII, which enumerates permissible areas including poverty alleviation, education, healthcare, environmental sustainability, and rural development.

The legislative architecture reveals a nuanced approach that combines mandatory spending requirements with discretionary implementation. While companies must earmark 2% of profits for CSR, they retain considerable autonomy in selecting specific projects, implementation modalities, and beneficiary communities. This design reflects an attempt to balance state direction with corporate flexibility, acknowledging that effective social interventions require contextual understanding and operational discretion (Balasubramanian et al., 2015).

The Companies (Corporate Social Responsibility Policy) Rules, 2014, and subsequent amendments have provided detailed implementation guidelines, clarifying aspects such as permissible expenditures, reporting requirements, and compliance mechanisms. The 2021 amendment introduced penal provisions for non-compliance, shifting from the original 'comply or explain' approach to a more stringent enforcement regime (Ministry of Corporate Affairs, 2021). This evolution indicates regulatory efforts to strengthen compliance while addressing implementation gaps that emerged during the initial years of the legislation.

III. THE PARADOX OF MANDATORY VOLUNTARISM

The Indian CSR legislation occupies an ambiguous conceptual space between legal obligation and voluntary action, challenging conventional categorizations of corporate responsibilities. The term 'mandatory CSR' itself embodies an oxymoron, as social responsibility has traditionally been understood as discretionary conduct beyond legal requirements (McWilliams & Siegel, 2001). By codifying CSR as a statutory duty, the Act transforms moral expectation into legal obligation, fundamentally altering the normative foundation of corporate social engagement.

This hybrid model reflects pragmatic recognition of India's developmental challenges and the perceived inadequacy of purely voluntary corporate initiatives. The legislative history reveals that mandatory CSR emerged from concerns about the slow pace of voluntary corporate social engagement and the need to systematically deploy corporate resources for nation-building (Lok Sabha Debates, 2012). The framers conceptualized CSR not as philanthropy but as a partnership model where corporations contribute to social development as stakeholders in national progress.

However, this legislative intervention raises fundamental questions about the nature of corporate obligations and the efficacy of law in promoting ethical behavior. Critics argue that mandating CSR commodifies social responsibility, reducing it to a compliance exercise devoid of genuine ethical commitment (Sundar, 2013). When social spending becomes a legal requirement, corporations may approach it with the minimalist logic of regulatory compliance rather than the transformative ambition of authentic social engagement. The risk is that mandatory CSR generates performative compliance formal adherence to spending requirements without substantive social impact.

IV. IMPLEMENTATION CHALLENGES AND INTERPRETIVE AMBIGUITIES

The operationalization of mandatory CSR has revealed significant implementation challenges stemming from interpretive ambiguities in the legislative framework. A primary area of contention concerns the definition and scope of eligible CSR activities. While Schedule VII provides broad categories, questions persist about what constitutes genuine CSR versus activities that primarily benefit the company or serve commercial objectives. For instance, debates have emerged regarding whether employee skill development programs, activities benefiting company towns, or projects that enhance brand reputation qualify as legitimate CSR expenditure (Mukherjee & Bird, 2016).

Another critical challenge involves the measurement and verification of CSR impact. The legislation mandates spending but provides limited guidance on assessing the effectiveness or social outcomes of CSR initiatives. This creates a compliance paradox where companies may fulfill spending requirements without generating commensurate social value. The absence of rigorous impact assessment frameworks means that CSR expenditure may be channeled into highly visible but minimally impactful projects, or conversely, genuinely transformative initiatives may go unrecognized due to inadequate measurement systems.

The enforcement mechanism presents additional complexities. Initially, the Act adopted a 'comply or explain' approach, requiring companies that failed to meet the 2% threshold to justify non-compliance in their annual reports. This soft law mechanism presumed that reputational concerns and stakeholder pressure would incentivize compliance. However, empirical studies indicated significant variation in compliance rates and quality of disclosure, leading to the 2021 amendment that introduced monetary penalties for non-spending (Arevalo & Aravind, 2011). This shift toward punitive enforcement raises questions about whether coercive mechanisms can engender the cultural transformation that authentic CSR requires.

Furthermore, the legislation creates practical challenges for smaller companies that, while meeting the financial thresholds, may lack the institutional capacity or expertise to design and implement effective CSR programs. The requirement to establish CSR committees, formulate policies, and execute projects imposes administrative burdens that may be disproportionate for companies without prior CSR experience. This has led to increased reliance on implementing agencies and CSR intermediaries, potentially creating distance between corporations and beneficiary communities while raising concerns about overhead costs and accountability.

V. CORPORATE RESPONSES AND BEHAVIORAL ADAPTATIONS

Corporate responses to mandatory CSR have been heterogeneous, reflecting varying organizational capacities, strategic priorities, and interpretations of social responsibility. Large corporations with established CSR traditions have generally embraced the legislation as validating their existing commitments, often exceeding the 2% threshold and integrating CSR into broader sustainability strategies. These companies have leveraged CSR mandates to strengthen stakeholder relationships, enhance corporate reputation, and align social initiatives with core business competencies (Kapur & Chelliah, 2019).

Conversely, companies new to systematic CSR have exhibited compliance-oriented approaches, treating the 2% requirement as a regulatory burden rather than an opportunity for social engagement. These organizations often adopt minimalist strategies, channeling funds to established NGOs or government programs with limited direct involvement in project design or monitoring. This outsourcing model, while facilitating compliance, potentially undermines the developmental objectives of CSR by reducing corporate engagement to financial transfer without strategic alignment or organizational learning.

Sectoral variations are also evident, with companies in sectors facing greater social and environmental scrutiny (such as extractive industries, manufacturing, and infrastructure) demonstrating more robust CSR engagement. This pattern suggests that mandatory CSR intersects with other regulatory pressures and stakeholder expectations, creating differentiated incentive structures across industrial sectors. The interplay between legal mandate, stakeholder pressure, and industry norms shapes how companies conceptualize and implement their CSR obligations.

VI. COMPARATIVE PERSPECTIVES AND GLOBAL IMPLICATIONS

India's mandatory CSR model stands in contrast to the predominantly voluntary approaches adopted in most jurisdictions. Western economies generally rely on soft law mechanisms, voluntary codes, and market-based incentives to promote CSR, premised on the belief that competitive pressures and stakeholder activism will drive corporate social engagement without legal compulsion (Kinderman, 2020). The European Union's approach emphasizes disclosure and transparency requirements rather than mandatory spending, reflecting a different regulatory philosophy that privileges information-based governance over prescriptive mandates.

The Indian model has attracted international attention as a potential template for other developing economies facing similar developmental challenges. Countries such as Indonesia, Mauritius, and several African nations have explored or implemented variations of mandatory CSR, adapting the Indian framework to their specific contexts. This policy diffusion reflects broader recognition that voluntary CSR may be insufficient in contexts characterized by weak social safety nets, significant poverty, and limited state capacity for welfare provision.

However, comparative analysis also reveals risks associated with mandatory CSR. International experience suggests that prescriptive CSR requirements may discourage innovation, create implementation rigidities, and potentially reduce overall social spending if companies calibrate their efforts to meet minimum legal requirements rather than maximizing social impact. The effectiveness of mandatory CSR depends critically on complementary factors including robust monitoring mechanisms, clear accountability structures, and organizational cultures that internalize social responsibility beyond mere compliance.

VII. CRITICAL EVALUATION: ACHIEVEMENTS AND LIMITATIONS

Eight years after implementation, India's mandatory CSR regime presents a mixed record of achievements and persistent challenges. On the positive side, the legislation has significantly increased corporate social spending, channeling substantial resources toward developmental priorities. Government data indicates that covered companies have collectively spent over ₹100,000 crores on CSR activities since 2014, addressing critical needs in education, healthcare, livelihood enhancement, and environmental protection (Ministry of Corporate Affairs, 2022). This resource mobilization represents a tangible achievement that would likely not have occurred under purely voluntary frameworks.

The legislation has also generated increased corporate attention to social and environmental issues, institutionalizing CSR within corporate governance structures through mandatory CSR committees and formalized policies. This institutionalization has the potential to embed social considerations into corporate decision-making processes beyond mere philanthropic expenditure. Many companies have developed sophisticated CSR frameworks, engaged with communities, and built partnerships with civil society organizations, contributing to ecosystem development for collaborative social action.

However, significant limitations persist. Questions about the quality and sustainability of CSR interventions remain largely unresolved. The focus on expenditure compliance rather than impact achievement creates incentives for short-term, visible projects over long-term transformative initiatives. Studies have documented instances of tokenistic compliance, where companies fulfill spending requirements through activities that generate minimal social value or primarily serve corporate interests (Sharma & Kiran, 2019).

Moreover, the concentration of CSR spending in urban and peri-urban areas, often proximate to corporate operations, raises equity concerns about whether mandatory CSR effectively addresses the needs of the most marginalized communities. The legislation's impact on reducing inequality and promoting inclusive development core objectives articulated during its enactment remains difficult to assess due to inadequate monitoring and evaluation frameworks. The absence of systematic impact assessment means that the social return on CSR investment cannot be reliably determined.

VIII. THEORETICAL IMPLICATIONS AND FUTURE DIRECTIONS

The Indian mandatory CSR experiment offers important theoretical insights into the relationship between law, business, and society. It challenges classical distinctions between public regulation and private voluntarism, demonstrating that hybrid governance models can emerge that combine elements of both. The legislation represents what might be termed 'regulated voluntarism' a regulatory approach that mandates social engagement while preserving corporate discretion in implementation.

This model suggests that the binary opposition between mandatory and voluntary CSR may be conceptually limiting. Corporate social responsibility exists on a continuum of regulatory intensity, with purely voluntary initiatives at one end and fully prescriptive mandates at the other. The Indian approach occupies a middle position, using legal requirements to establish baseline expectations while allowing companies to determine how to meet those expectations. This nuanced regulatory design acknowledges both the importance of legal frameworks in shaping corporate behavior and the limits of law in dictating complex social interventions.

Looking forward, the evolution of India's CSR regime will likely focus on strengthening impact measurement, enhancing transparency, and developing more sophisticated accountability mechanisms. Future reforms might emphasize outcome-based reporting rather than expenditure compliance, encourage multi-stakeholder collaboration, and create incentive structures that reward high-impact interventions. The challenge is to evolve the regulatory framework in ways that preserve the resource mobilization benefits of mandatory CSR while fostering genuine corporate commitment to social transformation rather than mere regulatory compliance.

IX. CONCLUSION

The Companies Act, 2013's mandatory CSR provision represents a bold regulatory experiment that fundamentally reconceptualizes the relationship between corporations and society. By legislating social responsibility, India has created a unique governance model that navigates between legal obligation and voluntary corporate citizenship. This approach has successfully mobilized significant corporate resources for developmental purposes while generating important questions about the nature of authentic social responsibility and the role of law in promoting ethical business conduct.

The tension between legal obligations and voluntary practices inherent in the Indian model reflects broader dilemmas in corporate governance and social policy. While mandatory CSR has achieved quantitative success in terms of resource mobilization, questions persist about qualitative impact, sustainability, and the authenticity of corporate social engagement. The challenge moving forward is to evolve the regulatory framework in ways that balance compliance imperatives with genuine commitment, ensuring that mandatory CSR generates substantive social value rather than performative compliance.

Ultimately, the Indian experience demonstrates that law can play an important catalytic role in promoting corporate social responsibility, but legal mandates alone cannot ensure transformative social impact. Effective CSR requires not only regulatory frameworks but also organizational cultures that internalize social responsibility, accountability mechanisms that ensure quality implementation, and collaborative ecosystems that enable partnerships between corporations, civil society, and the state. The future of CSR in India, and potentially in other jurisdictions considering similar approaches, depends on developing these complementary institutional capacities alongside legal requirements.

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