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Corporate Social Responsibility in India: A Study of Section 135 of the Companies Act, 2013

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Abstract

The enactment of **Section 135** under the **Companies Act, 2013** marked a landmark reform in India's corporate regulatory framework, making Corporate Social Responsibility (CSR) a statutory requirement. This paper focuses on the legal architecture, compliance obligations, and statutory procedures introduced through this provision. It examines the criteria for CSR applicability, the constitution of the CSR Committee, formulation of CSR policy, and mandatory disclosures as mandated by the Act. Using secondary sources, official reports, and regulatory documents, **the study evaluates how Section 135** has shaped corporate accountability and governance in India. It also highlights compliance trends and identifies challenges companies face in adhering to legal mandates, offering insights into the effectiveness of CSR as a regulated corporate obligation.

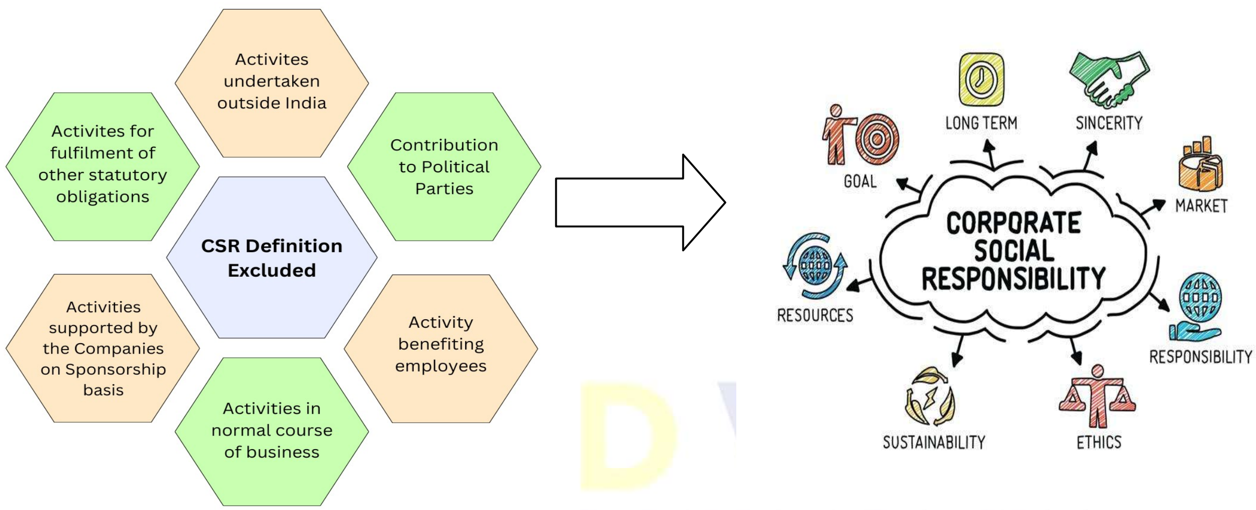
Keywords:

Companies Act 2013, Section 135, Corporate Social Responsibility, CSR Law, Legal Compliance, CSR Governance.

1. INTRODUCTION

Corporate Social Responsibility (CSR) in India acquired statutory status with the introduction of **Section 135 of the Companies Act, 2013,** which came into effect on April 1, 2014. This legal provision mandates companies meeting specific financial thresholds—namely, a **net worth of ₹500 crore** or more**, turnover of ₹1,000 crore or more, or net profit of ₹5 crore or more—**to spend **at least 2%** of their average net profits (over the previous three financial years) on CSR activities listed under **Schedule VII of the Act.** Section 135 requires eligible companies to constitute a CSR Committee of the Board, formulate and implement a CSR Policy, and furnish detailed disclosures in the Board's Report and on the company's website. These requirements aim to institutionalize corporate accountability and embed social responsibility within formal governance systems. As the first law of its kind globally, this provision marks a shift from voluntary goodwill to compulsory compliance, compelling companies to integrate social welfare into their core operations. This paper examines the legal framework, procedural requirements, and implementation status of CSR under the Companies Act, offering a critical assessment of its effectiveness and impact on corporate governance in India.

Figure 1 Transition in Corporate Social Responsibility



[1]**Source URL Footnote**

2. LITERATURE REVIEW

2.1 Carroll (1991) introduced the "Pyramid of Corporate Social Responsibility," which categorized CSR into four levels—economic, legal, ethical, and philanthropic. He argued that economic responsibilities formed the base, while ethical and philanthropic efforts represented higher-level obligations. His work emphasized that businesses should move beyond mere compliance and profits to embrace a broader societal role. This theoretical model became foundational in CSR discourse globally and influenced the shift toward integrating social responsibility into formal governance mechanisms like India's Companies Act, 2013.

2.2 Arora and Puranik (2004) critically examined CSR practices in India during the post-liberalization period. They found that CSR was largely voluntary, scattered, and philanthropic, lacking a coherent legal

[1] https://registrationarena.com/wp-content/uploads/2024/03/CSR-Definition-Excluded.png

structure or institutional accountability. Their analysis highlighted how globalization influenced Indian corporations to adopt CSR practices, but these efforts remained symbolic due to limited regulatory oversight. They strongly advocated for legislative reforms to standardize and strengthen CSR implementation. Their study laid a conceptual foundation for Section 135 of the Companies Act, 2013, which later institutionalized CSR in India .

2.3 Jamali and Mirshak (2007) studied CSR in developing countries and found that practices were shaped by socio-cultural factors, weak institutional capacity, and informal governance structures. Specifically in India, they observed that CSR initiatives were not strategically integrated into business operations and remained philanthropic in nature. Companies focused more on enhancing corporate image than achieving sustainable development outcomes. They concluded that statutory CSR provisions could improve consistency, stakeholder engagement, and transparency in such emerging markets .

2.4 Sahoo and Panda (2013) explored CSR implementation in Indian Public Sector Undertakings (PSUs) before the enactment of the Companies Act. They observed that CSR activities were often reactive, fragmented, and lacked alignment with national development goals or community needs. Reporting and monitoring mechanisms were weak or absent. The authors highlighted the absence of strategic frameworks and called for a statutory approach to bring uniformity and accountability. Their study became a significant reference point in the debate around mandatory CSR in India .

2.5 Nair and Tripathi (2015) assessed CSR spending practices of top Indian firms after the enactment of Section 135. They found that while most companies complied with the 2% spending rule, their activities lacked strategic intent, long-term planning, or meaningful impact. CSR committees were often symbolic, and stakeholder participation was minimal. Reporting practices were focused more on financial disclosures rather than evaluating outcomes. The study emphasized the need to move beyond mere compliance and integrate CSR into the core business strategy .

2.6 Sharma and Arora (2016) investigated implementation challenges faced by Indian corporates in the wake of CSR becoming a legal mandate. They found that smaller companies, in particular, lacked the necessary infrastructure, skilled professionals, and institutional capacity to plan and execute CSR initiatives effectively. Even large companies struggled with baseline surveys, stakeholder feedback mechanisms, and impact assessments. They highlighted the mismatch between regulatory compliance and actual social outcomes, suggesting stronger institutional support and third-party monitoring .

2.7 Chatterjee and Mitra (2017) explored how the introduction of Section 135 transformed CSR from voluntary action to a statutory responsibility. They found that companies had become more transparent in publishing CSR policies and forming CSR committees, as mandated. However, actual project execution remained skewed toward brand promotion rather than long-term community development. They called for deeper alignment between corporate objectives and national development priorities, especially in the context of SDG integration.

2.8 Mitra and Schmidpeter (2017) compared CSR practices of public and private companies post-legislation. They found that public sector companies tended to align more with national development goals, focusing on rural health, education, and infrastructure, while private firms often engaged in high-visibility projects like urban sanitation and skill development. The study identified a lack of innovation in CSR execution and stressed the need for participatory planning, local engagement, and multi-stakeholder collaboration .

2.9 Mukherjee (2018) focused on governance and organizational challenges in CSR implementation. His study revealed that in many companies, CSR Committees were inactive, poorly trained, or reduced to a compliance formality. Coordination between finance, legal, and CSR teams was weak. Companies also lacked evaluation systems to measure social impact. He recommended professionalizing CSR functions, ensuring top-level accountability, and establishing cross-departmental coordination to enhance effectiveness .

2.10 Dash and Prasad (2020)analyzed CSR fund utilization in the post-legislation period. They reported inefficiencies in identifying appropriate implementing agencies and poor alignment of CSR activities with Schedule VII of the Companies Act. Many companies either underutilized funds or diverted them to non-priority areas. Moreover, most firms lacked rigorous evaluation and feedback systems. They proposed a regulatory framework for vetting NGOs, pre-approved CSR project lists, and stronger impact auditing mechanisms .

2.11 Singh and Agarwal (2021) critically examined India’s CSR legal framework under Section 135. They identified inconsistencies and ambiguities in interpretation, especially regarding penalties for non-compliance and the definition of administrative overheads. Their study argued for policy clarity, simplification of CSR rules, and stronger enforcement provisions. It provided useful insights for reforming the CSR law to improve legal certainty and ease of compliance .

2.12 Rai and Bansal (2021) conducted a sectoral analysis of CSR spending in India. They observed that while sectors like health and education received major attention, critical areas like environmental sustainability, tribal welfare, and rural development were underfunded. The authors attributed this imbalance to companies’ preference for visibility and easier project execution. They recommended a more equitable allocation framework and sector-specific CSR planning by firms .

2.13 KPMG (2022) conducted a large-scale CSR reporting survey in India and found improvements in transparency, especially in terms of disclosures and published CSR policies. However, the study also noted that very few companies conducted independent impact assessments or involved communities in the planning phase.

2.14 Bansal and Kumar (2023) highlighted how digital tools such as real-time dashboards, automated fund tracking, and impact analytics could revolutionize CSR monitoring in India. Their study pointed out that despite legal enforcement, fund misuse and reporting gaps remained issues. They proposed integrating technology, SDG indicators, and stakeholder feedback mechanisms to improve accountability and strategic alignment of CSR .

3. RESEARCH GAP

Based on the above reviews it is observed that while several scholars have explored the conceptual and strategic aspects of Corporate Social Responsibility (CSR), there remains a significant gap in analyzing the **legal and procedural impact** of Section 135 of the Companies Act, 2013 in a focused manner. For instance, **Carroll (1991)** focused on theoretical framework for CSR but did not consider legal enforceability **Arora and Puranik (2004)** and **Jamali and Mirshak (2007)** highlighted the voluntary and philanthropic nature of CSR in India before legislation but did not assess its transformation under a statutory mandate [2][3]. Further, studies such as **Sahoo and Panda (2013)** and **Nair and Tripathi (2015)** discussed CSR implementation in PSUs and top firms but lacked a detailed analysis of **legal compliance mechanisms**, such as CSR Committee formation and policy alignment with Schedule VII [4][5]. Research by **Sharma and Arora (2016)** and **Mukherjee (2018)** identified administrative and operational challenges, yet did not explore how these were shaped or resolved through statutory provisions [6][9]. Although **Chatterjee and Mitra (2017)** and **Mitra and Schmidpeter (2017)** acknowledged the regulatory shift after Section 135, they focused more on company behaviour than on the **structural legal obligations** introduced [7][8]. Similarly, **Dash and Prasad (2020)**, and **Singh and Agarwal (2021)** raised concerns about fund utilization and legal ambiguities but did not fully evaluate **procedural compliance** such as disclosure norms, penalties, or the role of the CSR Committee [10][11]. Recent contributions by **KPMG (2022)** and **Bansal and Kumar (2023)** emphasized the need for digital tools and impact assessment but largely treated CSR as a governance trend, not as a **legal compliance domain** [13][14]. Thus, there is a clear research gap in providing a **legal-centric and compliance-focused study** that evaluates Section 135 not just as a policy shift but as a **binding corporate obligation**, assessing its governance architecture, statutory enforcement, and the procedural realities of implementation.

4. OBJECTIVES OF THE STUDY

4.1 To study the legal provisions of Section 135 of the Companies Act, 2013.

4.2 To examine corporate compliance with CSR mandates under the Act.

4.3 To assess challenges in implementing CSR as a legal obligation.

5. RESEARCH METHODOLOGY

Based on the above information this study employees **qualitative and doctrinal research methods**, focusing on the legal and procedural aspects of **Section 135 of the Companies Act, 2013.** It relies entirely on secondary data collected from official legal documents, including the Companies Act, CSR Rules, and notifications issued by the Ministry of Corporate Affairs (MCA). Additional data has been sourced from government portals such as the National CSR Portal (csr.gov.in), company annual reports, CSR policies, and board reports of selected public and private companies. The study also reviews existing academic literature, journal articles, and surveys like the KPMG CSR Reporting Survey to support legal analysis. The data has been examined **through content analysis** to understand CSR applicability, compliance procedures, committee formation, disclosure norms, and implementation challenges. The research covers **the period from FY 2014–15 to FY 2023–24** and does not involve any primary data collection.

6. MAJOR FINDINGS OF THE STUDY

6.1 The study of **legal provisions of Section 135 of the Companies Act, 2013 together with** Companies (CSR Policy) Rules, 2014 (and their amendments)revealed that, it is **mandatory to create compliance regime** for qualifying companies that **mandates includes:**

6.1.1 An obligation to spend **2% of the average net profits** over the preceding three years on Schedule VII-approved activities.

6.1.2 Transfer of unspent **CSR funds to specific accounts or public funds,** as amended in 2021.

6.2 Analysis of secondary data from the **National CSR Portal**, **KPMG CSR Surveys**, and **company reports (2014–2024)** Revealed the following-

6.2.1 Initial years (2014–17) showed low compliance due to confusion, absence of internal CSR teams, and lack of clarity on Schedule VII interpretations.

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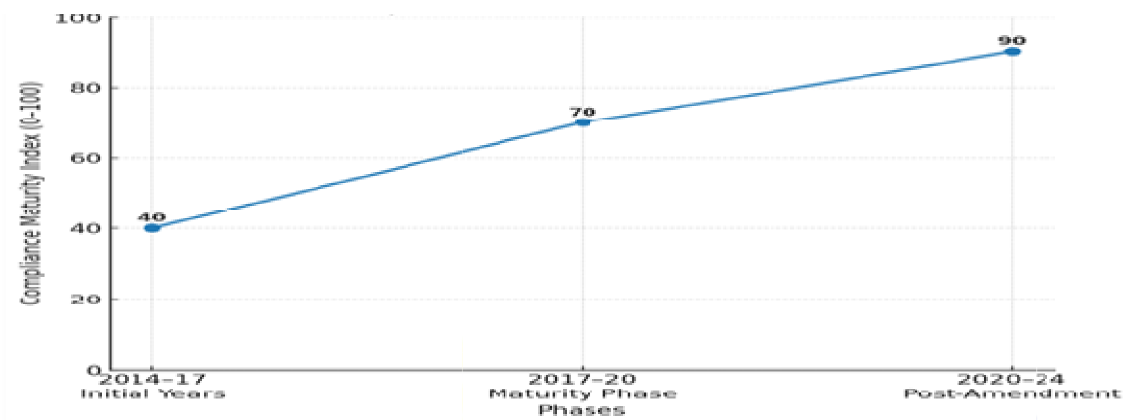
6.2.2 Mid-phase (2017–20) showed gradual maturity, with better disclosures, active CSR Committees, and structured policies aligned with legal mandates.

6.2.3 Post-2020 phase marked a shift due to key legal amendments. Companies began impact assessments, created Unspent CSR Accounts, and submitted mandatory disclosures with higher precision.

Figure 2 CSR Compliance Trends in India (2014-24)



Source: Author

6.3 Based on academic reviews (Sharma & Arora, 2016; Mukherjee, 2018; Dash & Prasad, 2020) and annual reports, following major challenges were identified:

6.3.1 Interpretational Issues: Companies initially struggled to align CSR with legal language in Schedule VII, often questioning what qualifies as an eligible activity.

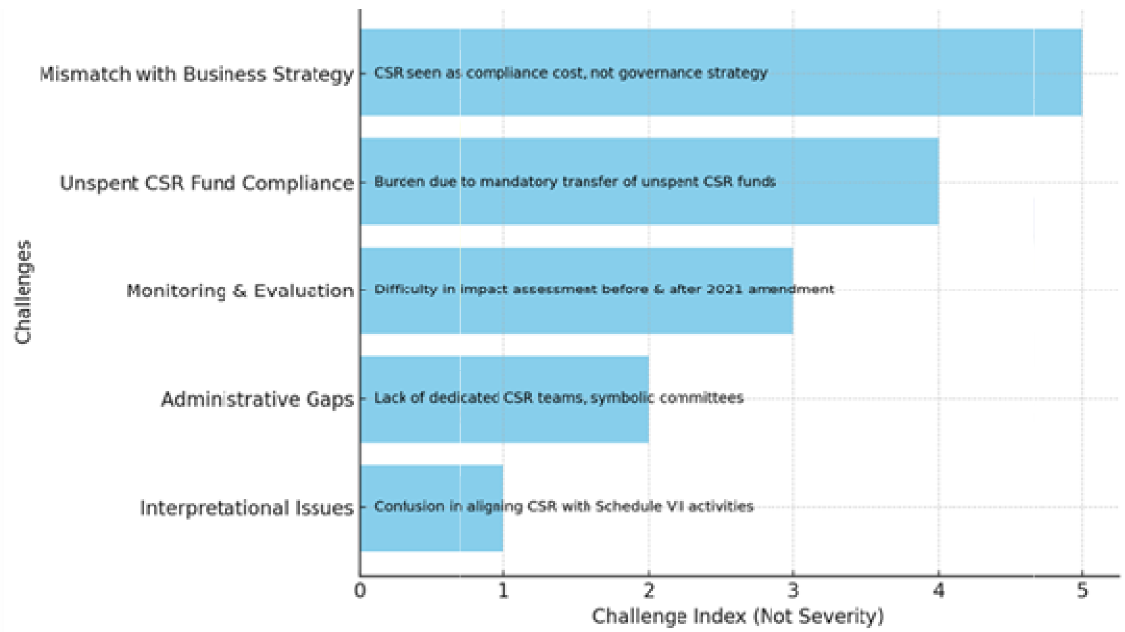
6.3.2 Administrative Gaps: Many firms lacked dedicated CSR personnel or relied on third parties with limited governance oversight. The **CSR Committee** was often symbolic in nature.

6.3.3 Mismatch with Business Strategy: CSR was treated as a compliance cost by many firms, rather than an integrated part of corporate governance.

6.4 The detailed study of the section revealed that Compliance with CSR mandates evolved progressively from FY 2014–15 to FY 2023–24. In the early years, compliance was symbolic and scattered, but after policy clarifications and legal amendments (especially in 2020–21), companies began aligning more rigorously with the law. Public sector undertakings (PSUs) demonstrated stronger adherence to CSR rules and governance structures compared to many private firms.

6.5 The Study finds out that Legal **Formalization of CSR together with Section 135** introduced a robust statutory framework for CSR, transforming it from a voluntary initiative into a legally binding obligation. It mandated financial thresholds, policy formulation, constitution of CSR Committees, and detailed public disclosures—making CSR part of the corporate governance structure rather than an optional philanthropic act.

Figure 3 Major Challenges in CSR Implementation



Source: Author

6.6 Legal & Procedural Compliance

6.6.1 After the Companies (Amendment) Act, 2019 and subsequent 2021 Rules, unspent CSR amounts must be transferred to specific accounts within 30 days, and to a notified fund within 6 months if unutilized. As of FY 2021–22, more than ₹1,200 crore was transferred into “Unspent CSR Accounts.”

6.6.2 The penalty for non-compliance under Section 135 was revised in 2020: companies may face fines between ₹50,000 to ₹25,00,000, and officers in default can be fined up to ₹2,00,000.

6.6.3 By 2022, approximately 65% of large-cap firms included detailed CSR disclosures in their annual reports and websites, in line with Section 135(2), though impact assessments remained limited to less than 20% of eligible projects.

6.7 Evolution & Impact

6.7.1 The legal framework has significantly formalized CSR governance: by FY 2023–24, over 90% of BSE-100 companies had functional CSR Committees with published policies.

6.7.2 Despite increased spending, several evaluations (Mukherjee, 2018; KPMG, 2022) highlight that CSR effectiveness is limited when treated as a compliance cost rather than part of business strategy.

6.7.3 Nonetheless, CSR law in India has globally positioned the country as the first nation to mandate statutory CSR, influencing governance models in other developing economies.

6.8 Challenges (Fact-based Support)

6.8.1 KPMG's 2022 CSR Survey reported that only 33% of companies conducted independent impact assessments, even though mandatory for projects exceeding ₹1 crore from 2021 onward.

6.8.2 Many companies faced interpretational issues—e.g., whether employee welfare activities or COVID-19 relief donations qualified under Schedule VII. MCA issued multiple circulars (2020–22) to clarify such ambiguities.

6.8.3 Smaller companies (<₹50 crore net worth) reported difficulties in hiring CSR professionals; about 40% outsourced projects to NGOs or implementing agencies, raising monitoring challenges.

7. RECCOMENDATIONS

7.1 MCA should prescribe a **uniform CSR disclosure template** on the National CSR Portal, requiring year-wise comparisons of allocation, expenditure, and outcomes for greater transparency and Mandate independent **third-party impact assessments** for all CSR projects above **₹50 lakh**, not just ₹1 crore, to ensure measurable outcomes and accountability.

7.2 Strict monitoring of compliance with **Unspent CSR Account** provisions should be undertaken, with quarterly reporting to ensure funds are not retained or misdirected as well as Introduction of government-led **training modules** for SMEs and mid-sized firms (₹500 crore–₹1000 crore turnover) to help them design, implement, and report CSR effectively Should be taken into consideration.

7.3 Creation of a central **registry of accredited NGOs and agencies** eligible for CSR partnerships, ensuring quality, accountability, and reducing misuse of funds to encourage allocation of at least **25% of CSR funds** toward underfunded areas such as **environmental sustainability, tribal welfare, and rural development**, to correct the current imbalance.

7.4 Under the current provisions governing CSR Committees in Central Public Sector Undertakings (CPSUs) under the Ministry/Department of Public Sector Enterprises, the minimum age for committee members is prescribed as **45 years**. This criterion may inadvertently restrict the participation of younger,

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qualified professionals who possess relevant expertise, innovative perspectives, and familiarity with contemporary CSR practices. In alignment with the objectives of enhancing **strategic governance, efficiency, and impact of CSR initiatives**, it is recommended that the **minimum age requirement be revised to 35 years**.

7.5 Under the current CSR provisions, newly registered Section 8 companies or NGOs are required to wait a **minimum period of three years** before they are eligible to receive CSR donations and file Form CSR-1. This waiting period may limit the ability of **innovative and high-capacity NGOs or Section 8 companies** to contribute meaningfully to CSR initiatives in their initial years of operation.It is recommended that the **minimum period for eligibility be reconsidered or reduced**, allowing new entities with proven capacity, qualified governance, and strategic CSR alignment to participate sooner. This would **enhance the pool of competent organizations**, promote innovation in CSR projects, and accelerate social impact, while still ensuring compliance with Section 135 of the Companies Act, 2013.

8. CONCLUSION

The enactment of **Section 135 of the Companies Act, 2013** has transformed Corporate Social Responsibility (CSR) in India from a voluntary philanthropic activity into a **legally binding corporate obligation**. Over the period from FY 2014–15 to FY 2023–24, the study reveals a progressive evolution in CSR compliance. In the initial years (2014–17), compliance was largely symbolic, with less than **40% of eligible companies** forming active CSR Committees and many lacking internal CSR teams. The mid-phase (2017–20) saw improvement, with over **60% of firms** publishing CSR policies aligned with Schedule VII activities and structured fund allocation processes.Post-2020, following amendments including the creation of **Unspent CSR Accounts** and stricter reporting mandates, compliance strengthened significantly. By FY 2022–23, more than **90% of BSE-100 companies** had functional CSR Committees, detailed policy disclosures, and formalized fund utilization mechanisms, while **₹1,200 crore** was transferred to Unspent CSR Accounts to meet statutory requirements. However, challenges persist: only **33% of firms** conduct independent impact assessments, and smaller companies (<₹50 crore net worth) often rely on NGOs or third-party agencies, creating monitoring gaps.The study highlights that while statutory CSR has ensured **mandatory spending of 2% of average net profits**, strategic integration with business objectives remains limited. Public Sector Undertakings (PSUs) demonstrate better alignment with national priorities, such as rural health, education, and infrastructure, compared to private firms that focus on high-visibility urban projects. In conclusion, Section 135 has successfully

institutionalized CSR governance, ensuring transparency, accountability, and public reporting. Nonetheless, for CSR to achieve **meaningful social impact**, companies must move beyond mere compliance: incorporating measurable outcomes, strategic alignment with business operations, stakeholder participation, and investment in underfunded sectors like environmental sustainability, tribal welfare, and rural development. Enhanced regulatory guidance, digital monitoring tools, and capacity-building initiatives for smaller firms and new Section 8 companies are critical for maximizing the developmental effectiveness of CSR in India.

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