

Role of Corporate Governance and Legal Framework in Enhancing CSR Effectiveness in Indian Companies

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Abstract

Corporate Social Responsibility (CSR) has emerged as a critical component of corporate strategy, reflecting the growing expectation that businesses contribute meaningfully to societal development. In India, the enactment of Section 135 of the Companies Act, 2013, has made CSR a legal obligation for certain companies, ensuring systematic planning, allocation of resources, and transparent reporting of social initiatives. However, legal compliance alone does not guarantee effectiveness; corporate governance plays a pivotal role in guiding, monitoring, and evaluating CSR activities to ensure ethical implementation and measurable social impact. This article examines the interplay between corporate governance and the legal framework in enhancing CSR effectiveness in Indian companies. It analyzes the role of board oversight, independent directors, transparency mechanisms, and stakeholder engagement in promoting strategic and accountable CSR practices. The study also explores the opportunities and challenges faced by Indian companies in implementing CSR initiatives, highlighting the implications for organizational reputation, stakeholder trust, and sustainable development. The findings underscore that the integration of governance principles with legal mandates can transform CSR from a statutory obligation into a powerful tool for societal benefit and corporate value creation.

Keywords: Corporate Social Responsibility (CSR), Corporate Governance, Companies Act 2013, Legal Framework, India, Stakeholder Engagement, Ethical Practices, Sustainable Development, Board Oversight, CSR Effectiveness

1. Introduction

Corporate Social Responsibility (CSR) has emerged as a crucial aspect of modern business practice, reflecting the growing expectation that companies contribute positively to society beyond their financial objectives. Globally, CSR is recognized as a framework through which businesses can demonstrate accountability to stakeholders, including employees, customers, communities, and the environment. From voluntary philanthropic activities in Western countries to structured sustainability reporting in Europe and

North America, CSR has evolved as a means to integrate ethical, social, and environmental considerations into core business strategies. Companies are increasingly judged not only by their profitability but also by their ability to operate responsibly, manage risks, and contribute to sustainable development. The global CSR movement underscores the importance of embedding social and ethical values into business operations, which has influenced policy and regulatory frameworks in several countries, including India.

In India, CSR has transitioned from being largely voluntary and philanthropic in nature to a legally mandated responsibility for certain categories of companies. The introduction of Section 135 under the Companies Act, 2013 marked a significant turning point in the Indian corporate landscape. This legislation requires companies meeting specific financial thresholds to allocate a minimum percentage of their net profits to CSR activities and to disclose their initiatives transparently in annual reports. The enactment of this law reflects a paradigm shift in Indian business, emphasizing accountability, structured planning, and the alignment of CSR initiatives with national developmental priorities, such as education, health, environmental sustainability, and social welfare. Over the years, CSR under Section 135 has evolved from basic compliance-driven reporting to strategic initiatives that aim to create measurable social impact while enhancing corporate reputation.

Corporate governance plays a pivotal role in ensuring that CSR initiatives are not merely symbolic or compliance-oriented but are executed effectively and ethically. Sound governance practices, including board oversight, audit committees, and stakeholder engagement, provide the structural and ethical foundation necessary for transparent and accountable CSR implementation. By promoting principles of integrity, responsibility, and ethical decision-making, corporate governance ensures that CSR activities are aligned with both the organization's strategic objectives and societal expectations. Governance mechanisms also help in monitoring, evaluating, and reporting CSR outcomes, thereby bridging the gap between corporate intentions and tangible social benefits.

The effectiveness of CSR initiatives in India is closely linked to the interplay between governance structures and the legal framework. While the Companies Act, 2013 provides the statutory mandate, corporate governance ensures that these initiatives are managed strategically, resources are allocated efficiently, and outcomes are monitored rigorously. The synergy between governance and legal compliance enables companies to adopt CSR practices that are sustainable, credible, and impactful. Without robust governance, legal mandates risk being reduced to formalities, whereas strong governance in the absence of legal guidance may lack the uniformity and accountability required to achieve broad social objectives.

The primary objective of this study is to examine the role of corporate governance and the legal framework in enhancing the effectiveness of CSR initiatives in Indian companies. The study aims to analyze how governance mechanisms, such as board oversight and stakeholder engagement, contribute to the planning, execution, and monitoring of CSR activities. Additionally, it seeks to explore how compliance with Section 135 of the Companies Act, 2013 influences CSR effectiveness and organizational accountability. By understanding the interaction between governance and legal requirements, this research intends to provide insights into how Indian companies can optimize their CSR strategies to achieve meaningful social impact while ensuring ethical and transparent operations.

2. Corporate Governance in India

Corporate governance in India has gained considerable importance over the past few decades as a framework for ensuring transparency, accountability, and ethical conduct in corporate management. At its core, corporate governance refers to the system by which companies are directed and controlled, balancing the interests of various stakeholders, including shareholders, management, employees, customers, and society at large. In India, the concept of corporate governance has evolved significantly, influenced by economic liberalization, regulatory reforms, and the increasing role of global business standards. The objective of corporate governance is not only to safeguard the interests of shareholders but also to enhance the long-term sustainability of organizations while fostering public trust in the corporate sector.

The legal and regulatory framework for corporate governance in India has been shaped by a combination of statutory provisions, regulatory guidelines, and best practice recommendations. Key legislations, such as the Companies Act, 2013, Securities and Exchange Board of India (SEBI) regulations, and listing requirements for publicly traded companies, provide the foundation for governance practices. The Companies Act, 2013, emphasizes the responsibilities of the board of directors, independent directors, audit committees, and other governance structures to ensure ethical decision-making, financial transparency, and accountability in corporate operations. SEBI's guidelines, particularly the clause on corporate governance in the listing regulations, further strengthen the accountability mechanisms by mandating disclosures, board composition standards, and shareholder rights protection.

Effective corporate governance in India is characterized by several key principles. One of the central elements is board oversight, where boards are responsible for monitoring management decisions, setting strategic direction, and ensuring compliance with legal and ethical standards. Independent directors play a vital role in providing unbiased oversight, evaluating CSR initiatives, and ensuring that these activities are aligned with both corporate objectives and societal expectations. Transparency and disclosure are equally critical, as they allow stakeholders to assess corporate performance, ethical practices, and social responsibility commitments. Mechanisms such as internal audit, risk management committees, and stakeholder engagement forums further enhance governance by providing checks and balances, promoting accountability, and mitigating potential conflicts of interest.

Over the years, Indian companies have increasingly recognized the strategic importance of linking corporate governance with CSR. Strong governance ensures that CSR initiatives are not only compliant with legal mandates but are also executed efficiently, effectively, and ethically. For instance, boards that integrate CSR into corporate strategy, oversee project implementation, and evaluate social impact can transform CSR from a mere statutory obligation into a meaningful tool for social development and brand reputation enhancement. Moreover, good governance fosters stakeholder confidence, enhances investor trust, and promotes sustainable growth, all of which are critical for long-term business success in the Indian context.

Despite significant progress, challenges remain in the Indian corporate governance landscape. Issues such as insufficient independent oversight, inadequate stakeholder engagement, and varying levels of transparency across organizations can undermine the effectiveness of governance mechanisms. Addressing these challenges requires continuous regulatory reforms, capacity building for directors, and

the adoption of global best practices tailored to Indian business contexts. By strengthening corporate governance frameworks, Indian companies can ensure that CSR initiatives are effectively managed, socially impactful, and aligned with both ethical standards and legal requirements.

3. Legal Framework for CSR in India

The legal framework for Corporate Social Responsibility (CSR) in India represents one of the most significant developments in the integration of social responsibility into corporate operations. Unlike many countries where CSR remains largely voluntary, India has codified CSR obligations through statutory provisions under the Companies Act, 2013, specifically in Section 135 and Schedule VII. This legislation marked a transformative shift, making CSR a mandatory responsibility for companies that meet specified financial criteria. According to Section 135, companies with a net worth of ₹500 crore or more, or an annual turnover of ₹1,000 crore or more, or a net profit of ₹5 crore or more in a financial year are required to spend at least 2% of their average net profits of the preceding three years on CSR activities.

Schedule VII of the Companies Act provides a clear guideline on the areas where CSR expenditure can be directed. These areas include eradicating hunger and poverty, promoting education, gender equality, healthcare, environmental sustainability, and contributions to socially relevant projects. By defining eligible CSR activities, the law ensures that corporate resources are directed toward socially meaningful initiatives that align with national development priorities. Companies are also mandated to constitute a CSR committee at the board level, which is responsible for formulating and monitoring CSR policies and ensuring that projects are implemented effectively.

The Ministry of Corporate Affairs (MCA) and the Securities and Exchange Board of India (SEBI) play a key regulatory role in monitoring CSR compliance. Companies are required to disclose their CSR policy, activities undertaken, and the amount spent on CSR in their annual reports and on their websites. This transparency not only ensures accountability but also allows stakeholders, including investors, employees, and the public, to evaluate corporate commitment to social responsibility. Non-compliance with CSR provisions can attract legal consequences, including fines and reputational damage, emphasizing the importance of aligning CSR activities with statutory mandates.

The legal framework also encourages strategic CSR rather than ad hoc philanthropy. By requiring board-level oversight, careful planning, and systematic reporting, the law ensures that CSR initiatives are sustainable, well-governed, and capable of generating measurable social impact. Moreover, companies are encouraged to align their CSR objectives with the United Nations Sustainable Development Goals (SDGs), thereby integrating global social priorities with local initiatives. Over time, this legal structure has elevated CSR from voluntary charitable acts to a structured, accountable, and strategic component of corporate operations in India.

While the Companies Act, 2013 provides the statutory backbone for CSR, effective implementation requires that companies integrate governance mechanisms, stakeholder engagement, and ethical oversight into their CSR practices. The synergy between legal mandates and corporate governance ensures that CSR initiatives are not merely a regulatory formality but a means of fostering sustainable development,

enhancing corporate reputation, and strengthening the ethical foundation of Indian businesses. The legal framework, therefore, serves as both a guideline and an enforcement mechanism, shaping CSR into a disciplined, impactful, and strategic element of corporate India.

4. Role of Corporate Governance in Enhancing CSR Effectiveness

Corporate governance plays a pivotal role in enhancing the effectiveness of Corporate Social Responsibility (CSR) initiatives by ensuring that these activities are strategically planned, ethically implemented, and transparently reported. While the legal framework, such as Section 135 of the Companies Act, 2013, mandates CSR spending and reporting, the mere fulfillment of statutory requirements does not guarantee meaningful social impact. Effective corporate governance provides the oversight, accountability, and ethical guidance necessary to transform CSR from a compliance exercise into a tool for sustainable social development. By integrating CSR into the broader framework of corporate governance, companies can ensure that social initiatives align with organizational values, stakeholder expectations, and long-term business strategy.

One of the primary ways governance enhances CSR effectiveness is through board-level oversight. The Companies Act requires the formation of a CSR committee comprising board members, which is tasked with formulating CSR policies, selecting projects, allocating resources, and monitoring outcomes. A well-functioning CSR committee ensures that initiatives are carefully evaluated for social relevance, feasibility, and impact. Independent directors, in particular, play a crucial role by providing impartial oversight and ensuring that CSR strategies are aligned with ethical principles and stakeholder interests rather than being driven solely by corporate image considerations. This board-level involvement fosters accountability, reduces risks of misuse of funds, and strengthens the credibility of CSR efforts.

Corporate governance mechanisms also emphasize transparency and disclosure, which are critical to CSR effectiveness. Companies are required to report CSR activities, expenditure, and outcomes in annual reports and public filings, enabling stakeholders to assess the authenticity and impact of social initiatives. Transparent reporting not only enhances trust among shareholders, employees, and communities but also encourages continuous improvement by highlighting successes, challenges, and lessons learned. Governance structures, including internal audits and risk management committees, further ensure that CSR projects are executed efficiently, funds are utilized appropriately, and potential ethical or operational risks are mitigated.

Another key aspect of governance in CSR is stakeholder engagement. Effective governance encourages companies to involve stakeholders—including beneficiaries, local communities, employees, and government agencies—in the planning and evaluation of CSR initiatives. Engaging stakeholders ensures that CSR projects address real social needs, are culturally appropriate, and generate meaningful impact. This participatory approach not only enhances social outcomes but also strengthens the company's reputation, fosters goodwill, and builds long-term relationships with the communities it serves.

Moreover, strong corporate governance encourages strategic alignment of CSR with the company's overall objectives. Rather than treating CSR as a peripheral obligation, companies can integrate social

responsibility into their business strategy, leveraging resources, expertise, and innovation to address social and environmental challenges. This strategic approach enhances the sustainability and effectiveness of CSR initiatives, as projects are systematically planned, monitored, and evaluated for measurable impact. By combining legal compliance with ethical oversight, strategic planning, and stakeholder engagement, corporate governance ensures that CSR becomes an instrument of both social good and corporate value creation.

In essence, corporate governance serves as the bridge between statutory requirements and meaningful social impact. It provides the structures, processes, and ethical framework necessary for CSR initiatives to be executed efficiently, transparently, and strategically. By strengthening governance mechanisms, Indian companies can ensure that CSR not only fulfills legal mandates but also contributes substantively to societal development, organizational reputation, and long-term sustainable growth.

5. Opportunities and Challenges

Corporate Social Responsibility (CSR) in India presents a wide range of opportunities for companies to contribute positively to society while simultaneously enhancing their corporate reputation and long-term sustainability. One of the primary opportunities lies in the ability to align CSR initiatives with strategic business objectives. Companies can leverage their expertise, resources, and innovation to address social, environmental, and developmental challenges, thereby creating shared value for both the organization and society. For example, initiatives in education, skill development, healthcare, and environmental sustainability not only benefit communities but also help companies build a skilled workforce, improve brand loyalty, and strengthen stakeholder relationships. Furthermore, the legal mandate under Section 135 of the Companies Act, 2013 ensures that CSR is institutionalized within corporate strategy, providing companies with a structured framework for identifying priority areas, allocating resources, and measuring impact.

Another significant opportunity lies in stakeholder engagement and trust-building. Transparent reporting of CSR activities, ethical implementation, and accountability mechanisms enable companies to strengthen relationships with investors, employees, customers, and communities. This enhanced trust can translate into a competitive advantage, as socially responsible organizations are increasingly preferred by consumers, investors, and partners. CSR also offers an avenue for companies to contribute to national development priorities, such as the United Nations Sustainable Development Goals (SDGs), aligning business operations with broader societal goals and positioning Indian companies as responsible global players.

Despite these opportunities, the implementation of CSR in India is accompanied by several challenges that can limit its effectiveness. One of the main challenges is the risk of superficial or compliance-driven initiatives. Many companies perceive CSR primarily as a statutory obligation rather than a strategic opportunity, which can result in minimal or poorly executed projects with limited social impact. Inadequate planning, insufficient monitoring, and a lack of measurable outcomes further exacerbate this issue, undermining the potential benefits of CSR initiatives.

Resource constraints and capacity limitations are another challenge, particularly for small and medium-sized enterprises (SMEs) that may struggle to allocate sufficient funds or expertise for meaningful CSR projects. Additionally, a lack of awareness about social needs, cultural contexts, and stakeholder expectations can lead to misaligned initiatives that fail to address pressing issues or create tangible impact. Governance-related challenges, such as insufficient board oversight, weak stakeholder engagement, and limited transparency, can further hinder CSR effectiveness, increasing the risk of ethical lapses or reputational damage.

Moreover, the dynamic regulatory environment and evolving reporting requirements can pose additional challenges. Companies must navigate complex legal obligations, maintain accurate records, and ensure compliance with disclosure norms, which can be administratively demanding. Finally, measuring the long-term impact of CSR initiatives remains a persistent challenge, as social outcomes are often difficult to quantify, and the benefits may accrue gradually over time.

Overall, while CSR in India offers significant opportunities to promote social development, enhance corporate reputation, and create strategic value, companies must address a variety of challenges to ensure effectiveness. By adopting robust governance mechanisms, strategic planning, stakeholder engagement, and transparent reporting, Indian companies can transform CSR from a statutory obligation into a powerful tool for sustainable social impact and organizational growth.

6. Implications for Indian Companies

The implementation of Corporate Social Responsibility (CSR) under a robust legal and governance framework has significant implications for Indian companies, shaping their strategic, operational, and reputational dimensions. Firstly, adherence to CSR mandates enhances corporate accountability and ethical standards, compelling companies to integrate social responsibility into their core business strategy rather than treating it as a peripheral activity. By aligning CSR initiatives with organizational objectives, companies can ensure that their social investments are purposeful, measurable, and sustainable, thereby creating tangible benefits for both society and the business itself. This strategic integration strengthens long-term planning and helps companies anticipate and mitigate social and environmental risks that may otherwise affect their operations.

Another important implication is the impact on corporate reputation and stakeholder trust. Companies that demonstrate consistent, transparent, and effective CSR practices are viewed more favorably by investors, customers, employees, and the wider community. Strong governance and legal compliance in CSR foster confidence among stakeholders, positioning companies as responsible and ethical entities. This enhanced reputation can translate into competitive advantages, such as increased brand loyalty, improved investor relations, and the ability to attract and retain talent, all of which contribute to sustainable business growth.

The legal and governance frameworks also drive a culture of accountability and performance measurement. Indian companies are required to monitor, report, and evaluate their CSR activities rigorously, ensuring that resources are utilized efficiently and projects achieve their intended social impact. This emphasis on transparency not only aligns with statutory obligations but also encourages

companies to adopt best practices in project selection, execution, and evaluation. Consequently, CSR initiatives are more likely to be data-driven, targeted, and outcome-oriented, enhancing overall effectiveness.

Moreover, the integration of CSR with corporate governance creates opportunities for innovation and collaboration. Companies can leverage partnerships with government agencies, non-governmental organizations (NGOs), and local communities to design and implement impactful initiatives. By involving multiple stakeholders in the planning and execution of CSR projects, companies can ensure relevance, maximize social impact, and strengthen community relationships. This collaborative approach also provides learning opportunities and fosters a culture of social consciousness within the organization.

Finally, the emphasis on CSR under legal and governance frameworks encourages companies to contribute to national development priorities and the Sustainable Development Goals (SDGs). Indian companies are not only fulfilling statutory obligations but also playing a proactive role in addressing critical societal challenges such as poverty alleviation, education, healthcare, gender equality, and environmental sustainability. By doing so, companies enhance their societal legitimacy, support inclusive growth, and contribute to the long-term stability and prosperity of the communities in which they operate.

In essence, the implications for Indian companies extend beyond mere compliance; effective CSR under strong governance and legal oversight promotes ethical responsibility, strategic value creation, stakeholder trust, and sustainable societal impact. Companies that embrace these principles are better positioned to achieve holistic growth while fulfilling their moral and legal obligations toward society.

7. Conclusion

In conclusion, the role of corporate governance and the legal framework in enhancing the effectiveness of Corporate Social Responsibility (CSR) in Indian companies is both significant and multifaceted. CSR in India has evolved from voluntary philanthropic activities to a legally mandated and strategically integrated component of corporate operations, particularly under Section 135 of the Companies Act, 2013. This legal mandate has institutionalized CSR, ensuring that companies allocate resources responsibly, plan initiatives systematically, and report outcomes transparently. However, legal compliance alone is insufficient to achieve meaningful social impact; robust corporate governance is essential to guide, oversee, and evaluate CSR initiatives effectively.

Corporate governance mechanisms, including board oversight, independent directors, audit committees, and stakeholder engagement, play a critical role in ensuring that CSR initiatives are aligned with organizational objectives, ethical principles, and societal needs. Governance provides the structures, processes, and accountability required to transform CSR from a statutory obligation into a tool for sustainable social development and organizational value creation. Companies with strong governance frameworks are better equipped to manage resources efficiently, implement impactful projects, and maintain transparency in reporting, which enhances stakeholder trust and corporate reputation.

While opportunities abound for Indian companies to leverage CSR for social and strategic benefits, several challenges persist, including compliance-driven initiatives, resource constraints, and limited awareness of societal needs. Addressing these challenges requires the integration of governance principles, strategic planning, stakeholder collaboration, and continuous monitoring. Companies that effectively combine legal compliance with governance oversight and ethical responsibility are able to maximize the impact of their CSR efforts, contributing to societal development while enhancing long-term sustainability and competitiveness.

Ultimately, the synergy between corporate governance and the legal framework provides Indian companies with a powerful foundation to implement CSR initiatives that are ethical, transparent, and socially meaningful. By embracing this integrated approach, companies not only fulfill their statutory obligations but also strengthen their role as responsible corporate citizens, driving positive change in society and reinforcing the trust of stakeholders. The future of CSR in India lies in the continued alignment of legal mandates, governance practices, and strategic corporate objectives, ensuring that social responsibility becomes an enduring and impactful feature of corporate life.

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