



CSR AS FORCED COMPULSION IN CORPORATE GOVERNANCE: A CRITICAL EXAMINATION UNDER INDIAN LAW

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ABSTRACT

In India, Corporate Social Responsibility (CSR) shifted from a voluntary practice to a formal requirement under Section 135 of the Companies Act 2013. The law mandates that certain companies set aside at least 2% of their average net profits for specific social welfare initiatives. This requirement is unique in pushing private companies to contribute to the greater good, going beyond profit-making. Supporters argue that it promotes inclusive growth and aligns with constitutional goals, while critics believe it imposes an unnecessary burden and could infringe on companies' independence and property rights. This article examines how mandatory CSR evolved, how it is implemented, and what it means for corporate governance and society as a whole. It also considers its constitutional standing under Articles 14, 19(1)(g), and 300A, along with its wider social and economic impacts. By exploring legal provisions, court rulings, and academic discussions, the piece concludes that while mandatory CSR enhances corporate accountability, its compulsory nature raises important concerns. We need to strike a balance in enforcement to prevent excessive interference with business freedoms.

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

INTRODUCTION

Corporate governance has typically been about finding a balance between what stakeholders want and shareholder interests. It aims to promote transparency, accountability, and ethical management. In India, things changed with the Companies Act of 2013, which made corporate social responsibility (CSR) a legal requirement under Section 135. This made India the first country to officially mandate that eligible companies spend money on CSR. This obligation

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kicks in for companies that hit certain benchmarks like having a net worth of ₹500 crore, a turnover of ₹1000 crore, or a net profit of ₹5 crore in the last financial year. They are required to allocate 2% of their average net profits (calculated under Section 198) to activities specified in Schedule VII, which covers areas like education, health care, poverty alleviation, and environmental protection. The goal of this rule is to weave social and environmental issues into how companies operate, connecting them to larger national development objectives. But this mandatory aspect has ignited discussions: is it a step forward for fair growth, or is it an unwanted state push that forces private money to serve public needs? This article looks at mandatory CSR as a form of enforced corporate governance, diving into its legal basis, academic views, methods for compliance, critiques, and even its constitutional implications.

HISTORICAL EVOLUTION OF CSR IN INDIA

CSR in India has a long history tied to traditional charity, with influences from Gandhian principles that view wealth as something held in trust for the benefit of society. After independence, we saw the introduction of voluntary guidelines, like the National Guidelines on CSR in 2009 and 2011. Things shifted to a more mandatory approach because there was some frustration over how well these voluntary guidelines were being followed. The discussions around the Companies Bill 2008 showed that the government was serious about making companies contribute to social development. When Section 135 was enacted in 2013, it was a landmark move, the first of its kind in the world, combining the spirit of voluntary giving with legal requirements. Later amendments from 2019 to 2021 made the rules stricter, introducing penalties, rules for unspent funds, and requiring registration for agencies that implement these initiatives. This whole journey really reflects India's unique socio-economic environment, where efforts from the state and the growth of businesses come together.

LITERATURE REVIEW

The conversation around mandatory corporate social responsibility (CSR) in India reveals a clash between what companies do voluntarily and what is being required by law. Before 2013, most discussions treated CSR as a voluntary endeavour, influenced by ideas like Gandhian trusteeship and various global models, such as Carroll's pyramid of responsibilities. Scholars have pointed out India's long history of philanthropy, which stretches from ancient welfare practices to the voluntary guidelines set after independence, particularly noted in publications from 2009 and 2011.

The Companies Act of 2013 really changed the game, as it faced criticism for being a sort of 'compulsion' that could hurt shareholder value and act like a tax. Following the 2019 amendments, studies show that what started as a 'comply or explain' rule turned into tougher penalties, including the requirement to transfer unspent CSR amounts and imposing fines that can reach up to ₹1 crore. There is also a connection made between mandatory CSR and constitutional duties, especially under Article 51A(g), which addresses environmental protection, and Article 21, which is the right to life, suggesting that CSR obligations are in addition to what the state is responsible for.

Research indicates that while compliance has improved, there are still significant implementation challenges, like superficial efforts and administrative hurdles. In the end, the academic perspective sees mandatory CSR as both innovative and controversial, trying to find a balance between holding companies accountable and avoiding excessive regulation.

METHODOLOGY

This article uses a doctrinal legal research approach, focusing mainly on primary sources like the Companies Act 2013 (specifically Section 135 and Schedule VII), the Companies (CSR Policy) Rules 2014 (and its amendments), and relevant notifications from the Ministry of Corporate Affairs. We also look at secondary sources, although there are not many direct legal challenges; these include court rulings, scholarly articles, government reports, and international comparisons on CSR, which is mostly voluntary elsewhere. For qualitative analysis, we dig into the wording of the laws, the intent behind the legislation, as seen in parliamentary debates and reports from standing committees, along with constitutional provisions. There was no data collection done; instead, we leaned on published compliance stats from the National CSR Portal and some academic critiques. This method gives us a chance to critically assess mandatory CSR as a kind of 'forced compliance' within corporate governance.

CSR AS A MANDATORY CORPORATE GOVERNANCE MECHANISM

Evolution of CSR in India: CSR in India has a rich history, shaped by ideas like Gandhian trusteeship, the philanthropic habits of business families, and the socialist policies that came after independence. Before 2013, CSR was mostly something companies did voluntarily, following guidelines like the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business from 2011.

Everything changed with the Companies Act of 2013. Section 135 now requires companies that hit certain financial benchmarks to comply with CSR rules, which means they have to set up a CSR Committee, create a CSR policy, and report their CSR efforts in the board's documentation. After that, amendments in 2019 and 2021 made things even stricter by adding penalties for those who do not follow the rules.

CSR as 'Forced Compulsion': The required aspect of Corporate Social Responsibility (CSR) really gets you thinking about the balance between a company's freedom and the need for economic rules. Unlike voluntary CSR, when it is mandated, companies lose the ability to decide on their own whether to invest in social initiatives. They still have the freedom to pick what they want to do, but they cannot negotiate whether or not to spend at all.

Some critics believe this forced approach turns companies into arms of state welfare, mixing up the roles of public taxes and private businesses. On the flip side, supporters contend that CSR is not a form of tax; rather, it is a responsibility that comes with the perks of being a corporation, like limited liability and the ability to exist indefinitely.

IMPLEMENTATION AND COMPLIANCE FRAMEWORK

Section 135 makes CSR a must-have in corporate governance by setting up a CSR Committee that needs at least one independent director. Companies have to come up with a CSR policy, get it approved by the board, and include annual updates in their Board's Report. They are also expected to spend 2% of their profits to tackle social issues, focusing on activities listed in Schedule VII that support the Sustainable Development Goals. Recent amendments have stepped up enforcement. Funds that are not used for ongoing projects will now go into a separate account, while any leftover amounts will need to be redirected to Schedule VII funds within six months. There are now penalties for not complying, moving away from the earlier softer 'comply or explain' approach to a stricter requirement.

Since April 2021, organisations handling CSR have to register using Form CSR-1. Companies are encouraged to focus on their local areas, but they can also work on projects that have a national impact.

EMPIRICAL IMPACT ON FIRMS AND GOVERNANCE

Research shows that mandatory corporate social responsibility (CSR) has had mixed results. After 2013, compliance jumped, and spending went up, but some companies are doing better than the minimum requirements, while others are falling behind. On the plus side, there is evidence that it can lead to more conservative accounting, better governance in non-family businesses, and a boost in reputation. But there are also some downsides, like a potential drop in shareholder value, increased debt costs, and extra operational challenges as CSR can feel like just another tax. While mandatory CSR does get stakeholders involved, it can also lead to companies spending money just to check a box rather than aligning with what they really stand for.

ANALYSIS

The mandatory CSR requirements under Section 135 are designed to embed social responsibility into how companies operate. This involves setting up a CSR Committee that includes at least one independent director, creating policies, getting board approval, and then reporting on progress in the annual Board Report. Companies are expected to spend 2% of their net profits to help address societal issues, with their activities outlined in Schedule VII, which ties into the Sustainable Development Goals. Recent amendments have made it easier to enforce these rules: if companies don't spend the money they set aside for ongoing projects, those funds must go into a specific account, while any unspent amounts for other projects need to contribute to Schedule VII initiatives within six months. There are penalties in place to discourage failing to comply, moving from a more lenient 'comply or explain' approach to stricter requirements.

Some critics feel this approach treats CSR like a tax, pulling profits away from shareholders without providing clear benefits to the business. They worry that it might lead to superficial spending or favouritism in the allocation of funds. On the flip side, supporters argue that it promotes ethical governance, boosts a company's reputation, and helps mitigate negative impacts from their operations. Examining the implementation data, there has been an increase in CSR spending, although the funds tend to be allocated more towards education and healthcare than to environmental projects or rural development. While the enforced spending does push for accountability, there is a risk of inefficiency if it is not carefully managed.

JUDICIAL INTERPRETATIONS AND RECENT DEVELOPMENTS

There have not been many direct constitutional challenges to Section 135 so far, but there are some indirect mentions that support the importance of CSR. Back in 2020, the Delhi High Court ruled that it was valid against claims based on Article 14 and 19(1)(g).

In a significant ruling in 2025, the Supreme Court decided that CSR is all about protecting the environment, viewing it as a constitutional duty under Article 51A(g). So, it is not just about charity; it is actually a requirement. This really ties CSR to basic duties and highlights how Article 21's right to life also includes responsibilities to the environment.

CONSTITUTIONAL IMPLICATIONS

Mandatory CSR raises some interesting questions about its constitutional validity. Does forcing private companies to use their profits infringe on Article 19(1)(g) (which covers the right to practice a profession or run a business) or Article 300A (the property right)?

The provision seems to hold up under Article 19(6) since it promotes public interest by fostering inclusive growth and aligns with the Directive Principles (like Articles 38, 39, 46, and 48A). The courts have broadened the interpretation of Article 21 to incorporate the right to a dignified life, meaning CSR can play a role in supporting what the state is already obligated to do. So far, there has not been a major court ruling that invalidates Section 135, although there have been indirect references in environmental cases that back up CSR's position as part of constitutional duties under Article 51A. It could be viewed as a reasonable regulatory measure rather than an arbitrary requirement, especially since there are thresholds and choices available for how companies can engage. Yet, if penalties become too harsh or enforcement too strict, it might raise concerns about being disproportionate. In the end, mandatory CSR fits nicely with India's socialist constitutional values, viewing corporations not just as profit-driven entities but as social institutions with responsibilities that extend beyond making money.

Article 19(1)(g): Freedom of Trade and Business: One of the main arguments against mandatory CSR is that it limits the right to pursue any profession or engage in any trade or business, as stated in Article 19(1)(g). It is important to note that this right comes with reasonable limitations outlined in Article 19(6). Mandatory CSR could indeed be seen as a reasonable restriction for the greater good, especially considering the impact that corporations

have on society and the environment. Indian courts have consistently supported economic regulations that promote the welfare of the public as a whole.

Directive Principles of State Policy: There is solid backing for CSR in the Directive Principles of State Policy, especially in Articles 38, 39(b), and 43, which focus on social justice, fair resource distribution, and the welfare of workers. While these principles are not legally enforceable, they do help guide interpretations when considering the constitutionality of economic laws.

Article 14: Equality Before Law: The way CSR obligations are applied selectively, depending on financial criteria, raises some concerns regarding Article 14. Still, this classification has a clear rationale and aligns with promoting social contributions, which means it meets the necessary constitutional standards.

CRITICISMS AND CHALLENGES

Critics believe that making CSR mandatory could take away from the voluntary aspect, place unnecessary stress on companies, and lead to superficial efforts or conflicts of interest. Studies indicate that this could actually lower a firm's value and raise its borrowing costs.

On top of that, it might skew the priorities of civil society or even lead to situations where land projects contribute to the 'accumulation by dispossession.' Plus, enforcing these rules is tough, even with penalties in place.

CONCLUSION

The mandatory CSR introduced by the Companies Act of 2013 is a significant step towards blending social welfare with corporate governance. It is shifting the focus from just voluntary giving to a more enforced sense of responsibility. This change aims to promote fair development and uphold key values such as social justice and environmental protection. However, some critics worry that this requirement might infringe on corporate freedom and shareholders' rights.

While there are stronger enforcement measures in place to ensure businesses comply, we need to be careful not to overdo it to the point where it stifles creativity and innovation. Looking ahead, we could improve how we assess impact, increase transparency, and better align these efforts with the country's priorities. If done right, mandatory CSR could encourage responsible

business practices without overly restricting companies, ultimately helping to drive sustainable and inclusive growth in India.

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