

Corporate Social Responsibility in India: Issues and Challenges

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Abstract

This paper aims to analyze the current landscape of Corporate Social Responsibility (CSR) in India, specifically focusing on the issues and challenges faced by companies in the implementation and evaluation of CSR initiatives following the mandatory provisions of Section 135 of the Companies Act, 2013. The study critically evaluates the shift from philanthropic to compliance-driven CSR and its subsequent impact on social development outcomes. The study identifies several key challenges hindering effective CSR implementation in India, including: lack of community participation and local capacity building, geographic disparity in fund allocation (concentration in developed states), issues of transparency and accountability, difficulty in measuring and assessing the long-term impact of projects, and a prevailing attitude of viewing CSR as mere compliance rather than a strategic business function.

Keywords: Corporate Social Responsibility (CSR), Companies Act 2013, Mandatory CSR, CSR Issues, Challenges, India, Social Development, Corporate Governance.

Introduction

Background of the Study

Corporate Social Responsibility (CSR) has evolved from mere philanthropy to a critical element of modern corporate governance. In 2013, India pioneered a global change by mandating CSR spending through **Section 135 of the Companies Act**. This landmark legislation requires companies meeting certain financial thresholds to allocate 2% of their average net profit toward specified social and environmental initiatives.

Although this mandate has directed a major amount of funding towards development sectors, there are many obstacles in the way of its implementation. This study examines the state of corporate social responsibility (CSR) in India, going beyond compliance to look at the practical problems and tactical roadblocks that keep these investments from producing long-term societal progress. We specifically look at issues with transparency, geographic inequality, and the challenging process of calculating long-term social impact. Finding structural flaws and suggesting solutions to turn required CSR into a useful instrument for inclusive growth are the main goals.

India is the world's first country to mandate CSR spending through **Section 135 of the Companies Act, 2013**. Eligible companies are legally required to spend **2% of their average net profits** on approved CSR activities. The law sets clear eligibility criteria, mandates a **CSR Committee at board level**, and specifies permissible activities under **Schedule VII**. This framework transformed CSR from a voluntary practice into a statutory responsibility, integrating corporate participation into national development goals.

Historical Context of CSR in India

- Pre-2014 (Voluntary Era): CSR rooted in philanthropy and moral responsibility, inspired by Gandhian Trusteeship.
- Pioneers: Industrial houses like Tata and Birla led social initiatives in education, healthcare, and community welfare.
- Nature of CSR: Ad-hoc, charitable, and voluntary, largely separate from core business strategy.
- Post-2014 (Mandatory Era): Section 135 of the Companies Act, 2013 made CSR spending legally mandatory.
- Paradigm Shift: CSR became institutionalized through board-level committees, formal policies, reporting norms, and focus on **Schedule VII** development priorities.

Problem Statement

Instead of being seen as a strategic instrument for long-term growth, CSR is frequently seen as a compliance necessity. As a result, money is concentrated in established areas while high-need areas are neglected, creating geographic inequities. Many businesses create short-term, disjointed projects because of failing to match CSR initiatives with their core competencies. Weak monitoring systems make it difficult to measure long-term social return on investment. Concerns regarding accountability, transparency, and green washing are raised by these disparities.

Objectives of the Study

- To understand the **legal framework** of CSR in India.
- To identify and analyze the major **issues** faced by companies in executing CSR activities.
- To evaluate the **challenges** in monitoring and measuring the impact of CSR spending.
- To offer **recommendations** for enhancing the effectiveness of CSR in India.

Research Methodology

The research aims to explore the various dimensions, mechanisms, and implementation gaps that have emerged following the introduction of the mandatory CSR law. The study will describe the current state of CSR spending, the common issues faced by companies, and the challenges in regulatory oversight based on existing official reports and data.

Scope and Limitations

The scope will be limited to the experiences of companies complying with Section 135.

Research Limitations

- The study cannot capture direct, real-time feedback from beneficiaries, CSR managers, or implementing NGOs.
- The findings are constrained by the level of detail and transparency provided in publicly available corporate and government reports, which may not always reflect the ground reality.

Review of Literature

- **Bhatt & Kadiyan (2023)** in *Social Development Issues* noted the high concentration of CSR funding in economically developed states, leading to a widening of existing socioeconomic gaps. They highlight the paradox of massive corporate profits accruing from backward areas receiving a **minuscule** share of the mandated spend (Source 1.2, 2.1).
- A study cited in a **NITI Aayog (DMEO) report (2021)** found that despite the rise in overall spending, the geographical disparity remains, noting the need for a solution to the challenge of measuring the social impact while taking into consideration the regional variations (Source 2.3).

- **Islam et al. (2023)** emphasized that the absence of clear guidelines in the Companies Act, 2013, regarding the allocation of funds for local development has led to the marginalization of less developed areas (Source 2.6).

CSR Legal Framework and Spending Trends in India

This chapter establishes the statutory basis for Corporate Social Responsibility (CSR) in India and analyzes the macro-level financial trends that have emerged since the mandate, providing the necessary context for the identified issues and challenges.

Key Provisions of the Companies Act, 2013 (Section 135)

India's CSR regime is unique due to its legal enforceability, defined primarily by **Section 135** of the Companies Act, 2013, and subsequent rules and amendments.

1. *Eligibility Criteria*

The Act mandates compliance for any company that meets **any one** of the following criteria during the immediately preceding financial year:

- **Net worth** of Rs.500 crore or more.
- **Turnover** of Rs.1,000 crore or more.
- **Net Profit** of Rs.5 crore or more.

2. *The Mandatory Spending Rule*

Eligible companies must spend **at least 2%** of the **average net profits** made during the **three immediately preceding financial years** on CSR activities.

3. *Governance Structure*

The law necessitates the formation of a **CSR Committee of the Board**, which must:

1. Formulate and recommend a CSR Policy to the Board.
2. Recommend the amount of expenditure to be incurred on CSR activities.
3. Monitor the CSR Policy from time to time.

4. *Areas of Focus (Schedule VII)*

CSR spending is restricted to activities listed under **Schedule VII** of the Act, which aligns corporate spending with national socio-economic priorities. Key areas include:

- Eradicating hunger, poverty, and malnutrition, and promoting health care.
- Promoting education and skill development.
- Ensuring environmental sustainability and ecological balance.
- Protection of national heritage, art, and culture.
- Measures for the benefit of armed forces veterans.

5. *The 'Comply or Explain' Mechanism and Penalties*

Originally, failure to spend the 2% required the Board to **explain the reasons** for the shortfall in its Annual Report (the "Comply or Explain" model). However, recent amendments introduced stricter penalties, making it mandatory to **transfer unspent CSR funds** to a specific government account or a designated fund (like the National Unspent CSR Account) within stipulated timelines, or face monetary penalties, enforcing greater accountability.

Analysis of National CSR Spending Trends

India has seen a notable increase in corporate social investment since the CSR mandate, surpassing Rs. 20,000 crore each year. This illustrates how well the law mobilizes private resources for social development. Nonetheless, funding is still mostly focused on healthcare, education, and skill development because these areas are well known and simple to implement. A number of areas continue to get insufficient funding, including environmental sustainability, technology incubation, and historical conservation. Furthermore, there is a significant geographic disparity in CSR expenditure, with the majority of monies going to economically developed states and little assistance going to high-need areas. These trends draw attention to systemic problems with inclusive effect and strategic allocation.

Issues and Challenges in CSR Implementation

Businesses face a number of operational and strategic obstacles while implementing CSR under India's Companies Act, 2013. The compliance-driven mind-set, which views CSR as a legal requirement rather than a strategic endeavour, is a significant problem. This frequently leads to flimsy, short-lived enterprises that are more concerned with fulfilling the 2% spending criteria than with making a lasting difference. Many businesses also struggle to match their CSR initiatives with their core skills, which results in wasteful resource consumption and little societal benefit.

The geographic disparity in CSR expenditure, which concentrates cash in developed metropolitan areas while ignoring poor and high-need areas, is another major issue. The dearth of reliable grassroots NGOs that can adhere to corporate governance and reporting norms creates operational challenges, necessitating reliance on a restricted number of sizable NGOs with little local knowledge. Because there are no established frameworks for measuring Social Return on Investment (SROI), governance and accountability problems continue. As a result, businesses prioritize spending and outputs over sustainability and long-term results. This disparity fuels worries about poor effect assessment, greenwashing, and transparency. Planning and carrying out CSR are made more difficult by frequent regulatory changes.

Evaluating the Challenges in Monitoring and Measuring the Impact of CSR Spending

This goal is to pinpoint the main obstacles to tracking and assessing the efficacy of CSR investment. Inconsistent data gathering and a lack of standardized measurement methods provide challenges for businesses. Long-term social effect assessment is still difficult and time-consuming. Many extrinsic circumstances make it difficult to properly link CSR actions to outcomes. These problems show how much better monitoring methods, openness, and organized reporting structures are needed.

Conclusion and Recommendations

Summary of Findings

By integrating CSR into corporate governance, the Companies Act of 2013 has successfully raised about Rs. 20,000 crore yearly for it. Despite this achievement, developed states exhibit a large geographic concentration of CSR spending, with high-need areas being neglected. Instead of viewing CSR as a strategic investment, many businesses approach it as a compliance duty, which leads to short-term and dispersed projects. The lack of defined evaluation frameworks makes it difficult to measure long-term impact and SROI. Effective and inclusive CSR implementation is further hampered by grassroots NGOs' inadequate capabilities.

Overall, the conclusion is that although India has been successful in supporting CSR, systemic governance and implementation problems pose a significant obstacle to attaining CSR impact.

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