An Analysis of Strengthening Corporate Social Responsibility for Corporate Governance

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Abstract

Corporate Social Responsibility (CSR) is not a new concept for India. CSR plays a vital role in strengthening corporate governance frameworks across the globe. This paper explores how CSR has evolved from a non-mandatory social initiative to a strategic governance mechanism that enhances transparency, accountability, and sustained growth and stability. In this paper, special attention is given to statutory CSR mandates under the Companies Act, 2013, which institutionalize corporate responsibility and align it with governance compliance requirements.

This research examines the impact of enhancing CSR frameworks on the enhancement of corporate governance structures in modern organisations. It examines theories like stakeholder theory and legitimacy theory to clarify how CSR initiatives improve ethical leadership, reduce risks, and strengthen board effectiveness. The study assesses regulatory advancements, transparency mandates, and global governance criteria that progressively incorporate social and environmental obligations into corporate decision-making frameworks.

The paper also examines regulatory gaps that may weaken the governance of CSR, and through a review of literature and policy frameworks, the paper argues that CSR implementation strengthens corporate governance by diminishing information asymmetry, augmenting reputational capital, and matching company aims with social expectations. The study synthesizes literature and case examples to propose strategies for integrating CSR into governance mechanisms by concluding that CSR is not only a moral imperative but also a governance enhancement tool.

Keywords

Corporate Social Responsibility, Stakeholder theory, legitimacy theory, Companies Act, Corporate Governance

1.   Introduction

The concept of Corporate Social Responsibility (CSR) is not new in India; this practice has existed since ancient times, though not in a formal capacity. Philosophers like Kautilya and pre-Christian rulers preached and promoted ethical principles while doing business. The concept of helping the poor and underprivileged was cited in much of the ancient literature. The idea was also supported by several religions, which have connected it to religious laws. "Zakaat", followed by Muslims, is a donation from one's own earnings, which is specially given to the poor and disadvantaged. Similarly, Hindus follow the principle of "Dharma" and Sikhs the "Daashaant". The term CSR came into common use in the early 1970s, and by the late 1990s, the concept was fully recognized. Some enterprises or corporations, like the Tata Group, the Birla group, and Indian Oil Corporation, through donations and charity, have been engaged in community improvement programs, and the basic objective of CSR in those days was to maximize the company's goodwill and reputation. According to WBCSD (World Business Council for Sustainable Development), "Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large."[3] CSR is a mechanism adopted by corporates to ensure that all its business activities are in accordance with the law and follow ethical standards.

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[3] Neeraj Sharma, *Corporate Social Responsibility Is Not a Charity but a Responsibility in India* (2016), ResearchGate, https://www.researchgate.net/profile/Neeraj-Sharma-

Cadbury Committee (U.K.), 1992, has defined corporate governance as such: "Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditor, and the management."[4] For good corporate governance, the manager needs to fulfil their duties to the company's owners (shareholders), creditors, employees, customers, the government, and society as a whole. CSR is the commitment to positive societal impact, and the relationship between Corporate Governance and CSR is intricate and significant, and emerges as a critical nexus, shaping the ethical, environmental, and economic landscape of companies worldwide. CSR also includes a method that a company employs its profit, including responsible investments, and transparency to various stakeholders, among others. Recognising the significance and enduring advantages of social responsibility, numerous companies have integrated socially responsible business practices. Corporate governance primarily focuses on internal mechanisms to govern a company's operations, while CSR focuses on the external impact of a company's operations. CSR initiatives can enhance a company's reputation and build trust among stakeholders, which is crucial for effective governance. Through Corporate Social Responsibility, a company can guarantee that its economic growth is advantageous to all stakeholders, including suppliers, employees, consumers, and the local community, while also mitigating its environmental impact. Good governance can help identify and manage risks related to social and environmental issues. By incorporating CSR into governance structures, companies can proactively address these risks, leading to sustainable business practices.

2.   Research objectives

The main objectives of this research paper are to find out these issues:

2.1   To analyze how strengthening Corporate Social Responsibility (CSR) contributes to improving Corporate Governance practices in organizations.
2.2   To analyze the relationship between Corporate Social Responsibility and Corporate Governance.
2.3   To examine the impact of CSR activities on organizational sustainability and long-term corporate performance
2.4   To suggest strategies and policy recommendations for strengthening CSR practices to improve corporate governance.

3.   Literature Review

The connection between CSR and Corporate governance has garnered significant interest from researchers, legislators, and practitioners in recent years. Multiple studies underline the interdependence of CSR and corporate governance rather than treating them as isolated concepts.

• Dr. Ayesha Mukherjee and Mrs. Gargi Pachauri (2025). CORPORATE SOCIAL RESPONSIBILITY (CSR): ITS IMPACT ON CORPORATE GOVERNANCE AND ACCOUNTABILITY. *Journal of Advanced Management Studies*, *2*(4), 12–19. analyze that Corporate Social Responsibility (CSR) has now been part of corporate governance and how these organizations facilitate transparency, ethical conduct, and accountability to their stakeholders. The results show that most companies are moderately to very transparent in their CSR reporting. For example, 74.55% of them have CSR committees at the board level, 47.27% show a strong link between CSR activities and governance policies, and 40% of the organisations have clear ways to hold people accountable.

• Tanusree Jain & Adrián Zicari & Ruth V. Aguilera, 2023. "Corporate governance and corporate social responsibility: revisiting their inter-relationship," Chapters, in: Till Talaulicar (ed.), Research Handbook on Corporate Governance and Ethics, chapter 6, pages 113-129, Edward Elgar Publishing, noted that corporate governance structures shape the adoption, design, and execution of CSR policies, while socially responsible firms

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108/publication/343812411_CORPORATE_SOCIAL_RESPONSIBILITY_IS_NOT_A_CHARITY_BUT_A_RESPONSIBILITY_IN_INDIA (last visited Apr. 23, 2025).

[4] Directorate of Distance & Continuing Education, Utkal University, Corporate Governance (2020), https://ddceutkal.ac.in/Syllabus/MBA-BOOK/Corporate-Governance.pdf (last visited Apr. 23, 2025).

often display stronger governance features. They argue that governance frameworks influence CSR disclosure, accountability practices, and stakeholder engagement.

- McWilliams, Abagail, and Donald Siegel. "Corporate Social Responsibility: A Theory of the Firm Perspective." The Academy of Management Review, vol. 26, no. 1, 2001, pp. 117–27. JSTOR, https://doi.org/10.2307/259398. Accessed 16 Mar. 2026 they define CSR as actions that appear to further some social good, beyond the interests of the firm and that which is required by law and researched that firm's level of CSR will depend on its size, level of diversification, research and development, advertising, government sales, consumer income, labor market conditions, and stage in the industry life cycle. Based on these hypotheses, we deduce the existence of an "optimal" level of CSR, ascertainable by managers through cost-benefit analysis, and that a neutral correlation exists between CSR and financial performance.

- Khan and Atkinson (1987) have done a study on managerial attitudes to social responsibility in India and Britain. The study states that most of the Indian executives believe CSR is relevant to business and feel that businesses have responsibilities towards other stakeholders, such as customers, suppliers, society, the country, and not only to the shareholders and employees

- Dr. M. Ramana Kumar (2013) did a study on CSR (Analysis of select Indian Private and Public sector companies). He looked at the CSR work done by both private and public companies. In the private sector, he analysed the CSR activities of Reliance Industries Ltd., and in the public sector, he analysed the CSR activities of ONGC. He has also studied the Indian government's policies and programmes of CSR. Dr. Ramana's study revealed that even though companies were making efforts to do CSR, a lot more needs to be done. The study also found a significant difference in the CSR practices of both companies. CSR budget of ONGC was more than that of RIL in 2010, 2011, and 2012. The average score of ONGC is more than that of RIL from 2009 to 2013.

- R. Edward Freeman (1984), in his book "Strategic Management: A Stakeholder Approach," introduced stakeholder theory, which serves as the foundation for modern Corporate Social Responsibility (CSR) by arguing that companies should create value for all stakeholders, i.e., employees, customers, suppliers, and communities, rather than just maximizing profit for shareholders. This theory posits that for long-term success, companies must align their interests with those of their stakeholders, which aligns with modern CSR initiatives designed to create mutual benefits (e.g., sustainable sourcing, employee welfare).

4.   **Relationship between Corporate Social Responsibility and Corporate Governance**

Corporate Social Responsibility and Corporate Governance are two aspects of the same coin, where one makes companies focus on ethics and society, and the latter is involved in the better management of the company. Corporate governance primarily focuses on internal mechanisms to govern a company's operations, while CSR focuses on the external impact of a company's operations. Together, they ensure that companies operate not only for profit but also for sustainable and responsible growth. Their relationship is interdependent as strong governance enhances CSR outcomes while CSR enriches governance by broadening stakeholder focus. From its charitable origins, corporate social responsibility (CSR) has evolved to include stakeholder involvement and is now tightly aligned with corporate governance frameworks.[5] A strong governance structure promotes ethical leadership, transparency, regulatory compliance, and stakeholder participation, all of which are essential for effective CSR practices.

The board of directors plays a vital role in integrating CSR into corporate strategy by setting policies, monitoring social performances, and allocating resources. Thus, governance ensures that CSR moves beyond philanthropy and becomes embedded in organizational culture and long-term planning. CSR, in turn, strengthens corporate governance by enhancing corporate reputation and stakeholder trust. When companies engage in fair labor practices, community development, responsible environmental practices, and consumer protection, they build credibility and reduce reputational risks.

The legal and regulatory environment further connects corporate governance and CSR. Many countries mandate sustainability reporting and CSR disclosures as part of governance requirements, encouraging companies to

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[5] Afra Afsharipour, Corporate Governance Convergence: Lessons from the Indian Experience, 29 JILB 2009

integrate social responsibility into corporate policies. For example, the Companies Act 2013 requires companies to spend a portion of their profits on CSR activities and report them transparently.

5.   Corporate Social Responsibility under the Companies Act 2013

The term "corporate social responsibility," or "CSR," is not well-defined, but it has become the gold standard for how companies should behave morally around the world. When we refer to a company's "corporate social responsibility," we imply the moral and ethical obligations it has to its employees, the community, the environment, its rivals, and society at large due to the effects it has on these areas.[6] Corporate Social Responsibility (CSR) is a concept that has attained substantial prominence in the corporate realm, particularly in India, where firms are progressively acknowledging the necessity of contributing to society. India became the first nation to enact legislation mandating the implementation and reporting of Corporate Social Responsibility (CSR) activities under the Companies Act, 2013. The Corporate Social Responsibility details have been defined in separate sections in the Companies Act 2013.

The Ministry of Corporate Affairs notified Section 135[7] and Schedule VII[8] of the Companies Act and the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSRRules), which came into effect on 1 April 2014. Corporate Social Responsibility (CSR) in India has become mandatory for companies crossing a certain profit, turnover, or net worth threshold. Section 135 of the Companies Act 2013 (Act) mandates that certain companies must allocate at least 2% of their average net profits from the preceding three financial years towards CSR activities. This provision applies to companies with a net worth of Rs. 500 crores or more, a turnover of Rs. 1000 crores or more, or a net profit of Rs. 5 crores or more during the preceding financial year. Companies of this nature shall establish a CSR Committee of the Board, which shall consist of three or more directors, at least one of whom shall be an independent director. CSR makes the company look better in the eyes of the public by showing that they are working to make the world a better place. This also makes it more likely that consumers will like them.

The Act outlines various CSR activities that companies can undertake, including but not limited to promoting education, eradicating hunger and poverty, ensuring environmental sustainability, empowering women and marginalized communities, and supporting healthcare initiatives.[9]

6.   Strengthening CSR within Governance Structures

According to the United Nations Industrial Development Organisation (UNIDO) (2022), corporate social responsibility (CSR) is how a business balances the demands of shareholders and stakeholders with the needs of the economy, environment, and society (the "Triple-Bottom-Line- Approach")[10]. To strengthen Corporate Social Responsibility (CSR) within governance structures, companies need to integrate sustainability into their core business plans, establish dedicated board-level committees, and publish public reports. Companies improve their credibility and compliance by linking CSR to long-term goals and stakeholder needs, including environmental, ethical, and community issues. Key mechanisms to strengthen CSR within governance include

6.1   Board Oversight and Leadership: The Board of Directors plays a vital role in embedding CSR into governance. Board-level CSR committees and task forces ensure that independent oversight and diversity in leadership can elevate CSR priorities. Board leadership in CSR demonstrates a commitment to ethical conduct, long- term value creation, sustainability, and stakeholder engagement.

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[6] Dhanesh, G.S., 2015. Why corporate social responsibility? An analysis of drivers of CSR in India. Management Communication Quarterly, 29(1), pp.114-129.

[7] Companies Act, 2013, § 135, No. 18, Acts of Parliament, 2013

[8] Companies Act, 2013, Schedule VII, No. 18, Acts of Parliament, 2013

[9] Aggarwal, V.S. and Jha, A., 2019. Pressures of CSR in India: an institutional perspective. Journal of Strategy and Management, 12(2), pp.227-242

[10] https://www.directors-institute.com/post/the-role-of-governance-in-corporate-social-responsibility-csr-initiatives-aligning-csr-with-gover

6.2   Stakeholder Engagement: For an effective CSR integration within governance, there is a need for meaningful stakeholder engagement to understand their opinions, priorities, and concerns through consultations, participatory forums, and social impact assessments, which strengthens accountability. Engaging stakeholders contributes to sustainable business practices and ensures that CSR initiatives reflect stakeholder needs rather than symbolic compliance.

6.3   Measurement and Transparent Reporting: Metrics such as Environmental, Social, and Governance (ESG) indices, impact assessments, and sustainability audits are essential for stakeholders to evaluate the company's performance and contributions to society, and also provide quantitative and qualitative insights that inform governance decisions and enable external evaluation of CSR performance.

6.4   Risk Management and Compliance: Governance makes sure that CSR projects follow all the rules, laws, industry standards, and best practices around the world that apply to them. To include CSR in governance strategies, you need to find, evaluate, and reduce social, environmental, and ethical risks. Following ESG reporting standards like the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB) rules makes things more open and accountable.

7.   **Real Challenges in Strengthening CSR**

Strengthening Corporate Social Responsibility (CSR) for corporate governance faces numerous challenges, ranging from regulatory compliance burdens to strategic misalignment. There are numerous issues or challenges, such as balancing short-term financial goals with long-term CSR objectives, which cause hindrance for companies. Below are the key challenges in strengthening CSR for Corporate Governance:

a.   Resource Constraints

Resource allocation presents a challenge, especially for small and medium enterprises (SMEs), which often lack the human, financial, and technical resources to implement comprehensive CSR strategies, leading to uneven adoption. Accountability and clear budgeting mechanisms are necessary to ensure effective resource allocation and maximize the positive outcomes of CSR initiatives.

b.   Absence of Explicit Rules Regarding Acceptable CSR Activities

The Companies Act, 2013, lacks clear definitions of what qualifies as CSR, leading to confusion in project selection. Companies often struggle to determine whether employee welfare programs, corporate branding initiatives, or donations to political causes are considered legitimate CSR expenses. This ambiguity results in compliance burdens and inconsistent CSR implementation.[11] To prevent legal risks and reputational harm, businesses must stay current on pertinent legislation, reporting requirements, and disclosure duties.

c.   Greenwashing and Symbolic Compliance

Companies may engage in "greenwashing," which undermines the credibility of CSR by misleading stakeholders and by creating a gap between claimed and actual environmental performance. Companies often exploit regulatory loopholes and vague sustainability standards to appear environmentally friendly without making any real changes.

The **Volkswagen Emissions Scandal**[12] – A Case of Greenwashing Failure Volkswagen falsely marketed its diesel vehicles as eco-friendly while secretly installing software to manipulate emissions tests, allowing the cars to emit pollutants far beyond legal limits. When the deception was uncovered, the company faced over $30 billion in fines, extensive legal battles, and a severe decline in consumer trust. The scandal prompted stricter regulatory scrutiny across the automotive industry, highlighting the urgent need for independent emissions testing and more

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robust oversight. Implementing AI-driven monitoring systems and blockchain-based transparency tools could have provided real-time verification of environmental claims, preventing such large-scale greenwashing.

d.   Weak accountability and Reporting

Even though companies are required to disclose information, CSR monitoring is still weak, which raises concerns about misreporting and not using CSR funds. Some businesses lie about how much they spend on CSR or don't say how they use the money. The absence of standardised impact assessment complicates the evaluation of CSR effectiveness.

8.   Conclusion and Suggestions

This research has emphasised the complementary relationship between CSR and Corporate   Governance in fostering long-term value creation and social impact, elucidating their synergies through an examination of contemporary literature. The integration of CSR into Corporate Governance is not purely normative, but a strategic mechanism for sustainable business performance. Regulatory frameworks such as the Companies Act 2013 demonstrate India's dedication to promoting transparency, accountability, and stakeholder management in Corporate Governance. While India has progressive CSR laws, their implementation remains inconsistent due to a lack of resource allocation, a lack of clear guidelines, weak monitoring, and regulatory gaps. In line with international best practices, these actions not only support ethical behaviour and environmental sustainability but also encourage adherence to CSR requirements.

•   Enforcement mechanisms, strengthening legal frameworks, transparent reporting, and measurement are crucial for sustainable business performance.
•   Raising public awareness of CSR is necessary to improve the efficacy of CSR initiatives.
•   Stakeholder approach, i.e., companies must align their interests with those of their stakeholder, which aligns with modern CSR initiatives designed to create mutual benefits, such as employee welfare, with sustainable sourcing.
•   CSR needs to be a mandatory subject in all schools, colleges, and institutions. It will increase students' understanding of the role companies play in carefully balancing profits with societal issues, as well as social and development difficulties.
•   Working with a wide range of stakeholders, such as employees, customers, investors, communities, and NGOs, encourages cooperation, gets useful feedback, and builds trust.
•   Companies must ensure that activities and CSR initiatives are carried out equitably in both urban and rural areas.

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