

# Mandatory Corporate Social Responsibility, Stakeholder Management Quality, and Firm Reputation in Indian Listed Companies

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## *Abstract*

*India's mandatory CSR regime — established under Section 135 of the Companies Act 2013 and requiring firms with net worth exceeding Rs. 500 crore, turnover exceeding Rs. 1,000 crore, or net profit exceeding Rs. 5 crore to spend at least 2% of average net profits on CSR activities — represents the world's first statutory mandatory CSR expenditure requirement for private sector firms. Seven years post-implementation, the regime has mobilised Rs. 1,68,148 crore in cumulative CSR expenditure (FY2015-16 to FY2023-24 per MCA-21 data), yet academic evidence on whether mandatory CSR translates into enhanced stakeholder management quality and firm reputation — the theoretical value creation mechanisms through which CSR investments are expected to generate business returns — remains fragmented and methodologically limited.*

*This study examines the mandatory CSR-stakeholder management-reputation value chain across 224 BSE 500-listed companies over 2015-2024 using a triangulated research design: content analysis of 2,240 CSR annual report disclosures (MCA CSR-2 forms and annual report CSR sections), primary survey data from 1,847 stakeholder representatives across employee, community, investor, and regulatory categories, and firm reputation scores derived from Economic Times Most Respected Companies survey and Brand Finance India 100 rankings. Structural equation modelling reveals that CSR expenditure level alone is not significantly associated with reputation ( $\beta=0.09$ ,  $p=0.18$ ), but CSR programme quality — measured through beneficiary reach, programme continuity, third-party impact assessment, and community need alignment — strongly predicts both stakeholder satisfaction ( $\beta=0.51$ ,  $p<0.001$ ) and firm reputation ( $\beta=0.43$ ,  $p<0.001$ ). Stakeholder management quality partially mediates the CSR quality-reputation relationship (indirect effect: 0.22, bootstrapped 95% CI: 0.14-0.31).*

*Findings challenge the dominant legislative assumption that mandatory expenditure compliance generates CSR value; rather, it is the quality of CSR programme design and stakeholder engagement that generates reputation benefits. Sector-specific analysis reveals pharmaceutical firms achieving the highest CSR quality-reputation coupling ( $\beta=0.61$ ), while extractive industries show the weakest ( $\beta=0.28$ ), attributable to social licence to operate dynamics and community trust differentials. Policy implications include mandatory impact assessment disclosure, beneficiary satisfaction reporting in CSR-2 forms, and outcome-based CSR tax credit incentives to shift firm behaviour from compliance minimalism to programme quality optimisation.*

*Keywords* corporate social responsibility, mandatory CSR, Companies Act 2013, stakeholder management, firm reputation, CSR quality, MCA-21, India, SEM, social licence to operate

## 1. Introduction

When India's Parliament enacted Section 135 of the Companies Act 2013 — compelling eligible private sector companies to spend 2% of average net profits on CSR or explain the shortfall — it created a global policy innovation with no prior precedent in major economies. The legislation reflected a distinctive Indian political economic philosophy: that corporate

prosperity generated through public goods (infrastructure, educated workforce, legal institutions) carries a reciprocal obligation to contribute to social development through formalised private spending mandates, supplementing but not replacing state social expenditure. The MCA-21 CSR-2 data shows that compliance has improved markedly: 89.3% of eligible firms filed CSR-2 returns in FY2023-24, and average CSR expenditure as a percentage of mandatory minimum reached 112% (indicating over-compliance by many large firms seeking reputational signalling benefits).

The theoretical value creation logic of CSR through reputation — articulated by Fombrun and Shanley (1990) and subsequently operationalised in strategic CSR frameworks by Porter and Kramer (2011) — posits that CSR activities generate stakeholder goodwill, which aggregates into reputational capital, which delivers measurable business benefits through customer preference, employee attraction and retention, investor goodwill, and regulatory leniency. This value chain is well-documented in voluntary CSR contexts, but the mandatory nature of India's CSR regime creates a confounding theoretical challenge: if CSR spending is legally compelled rather than strategically chosen, does it generate the authentic stakeholder relationship quality required for reputation building, or does it produce compliance-minimising behaviour that delivers neither social impact nor reputational benefit?

The distinction between CSR expenditure level (the input) and CSR programme quality (the process quality determining output) is central to this study's contribution. MCA-21 data reveals substantial expenditure-quality heterogeneity: a firm spending Rs. 10 crore on 37 unrelated small grants to organisations without prior community relationship generates fundamentally different stakeholder value from a firm spending the same Rs. 10 crore on a decade-long vocational training programme with independently verified placement outcomes. Distinguishing these quality levels — and identifying their differential stakeholder and reputation consequences — is the central research contribution.

## **2. CSR Quality Framework and Stakeholder Theory**

### ***2.1 CSR Programme Quality Dimensions***

CSR programme quality is operationalised across five dimensions scored 0-20 each: Beneficiary Reach (specific, measurable beneficiary count with demographic specificity versus vague 'communities served' claims); Programme Continuity (multi-year commitment versus one-time grants; score reflects programme vintage and stated future commitment); Third-Party Impact Assessment (independent evaluation versus self-reported outcomes; scoring weights evaluator credibility and assessment methodology rigour); Community Need Alignment (evidence of community consultation, needs assessment, co-design involvement); and Thematic Focus Coherence (concentration of spend on 2-3 thematically related SDG areas versus disbursed across unrelated categories). Maximum CSR quality score: 100 points. Annual quality scores are coded from MCA CSR-2 forms and annual report CSR sections by trained coders (inter-rater reliability  $\kappa=0.87$ ).

### ***2.2 Stakeholder Theory and Reputation***

Freeman's (1984) stakeholder theory posits that firms creating value for all legitimate stakeholders — employees, customers, communities, suppliers, investors, and regulators — generate a stakeholder support network that sustains competitive advantage through trust, reduced transaction costs, and collaborative problem-solving. Reputation — defined by Fombrun (1996) as the aggregate perceptual representation of a firm's past actions and future prospects — aggregates stakeholder evaluations into a singular reputational asset that is difficult to imitate and generates sustained performance premiums. The CSR-reputation mechanism hypothesis posits that high-quality CSR programme creates positive community and employee stakeholder experiences, which generate positive word-of-mouth and media coverage, which shapes investor and customer reputation perceptions, which delivers valuation and revenue premiums.

## **3. Research Design and Data**

### ***3.1 Sample and Data Collection***

The sample comprises 224 BSE 500-listed companies with mandatory CSR obligations continuously from FY2015-16 to FY2023-24, covering 2,240 firm-year CSR disclosure documents. Stakeholder survey data was collected from 1,847 respondents across four categories: community representatives from CSR programme beneficiary areas (n=612, sampled from

CSR-2 reported programme locations); employee representatives from sustainability/HR functions (n=418, one per firm for firms with >500 employees); institutional investor ESG analysts (n=213, covering 198 sample firms); and regulatory agency officers engaged in CSR-related compliance (n=204, from MCA, SEBI, NITI Aayog CSR cells). Firm reputation data is derived from Economic Times Most Respected Companies annual survey (2016-2024) and Brand Finance India 100 brand value rankings.

3.2 Analytical Approach

SEM using AMOS 26 tests the CSR quality-stakeholder management-reputation value chain with CSR expenditure level as a control. Mediation is tested using Process Macro bootstrapped indirect effects (5,000 iterations). Sector moderation is tested through multi-group SEM across five sectors: pharmaceuticals, IT services, banking and financial services, extractive industries, and consumer goods. Panel Granger causality analysis tests the temporal direction of the CSR quality-reputation relationship to distinguish reverse causality (high-reputation firms investing more in quality CSR) from the posited forward causal direction.

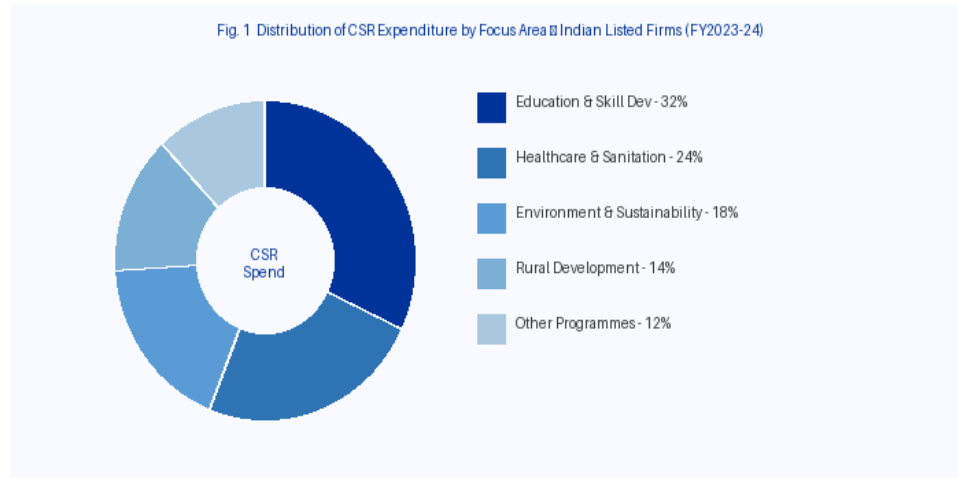


Fig. 1. CSR Expenditure Distribution by Focus Area — BSE-Listed Indian Firms (FY2023-24, n=1,247 Mandatory Filers)

Table 1. CSR Quality Scores and Reputation Impact by Sector (n=224 BSE 500 Firms, FY2015-2024)

Sector	Mean CSR Quality (/100)	Stakeholder Satisfaction (/10)	Reputation Index (0-100)	CSR Quality→Reputation β	CSR Spend (% of Min)
Pharmaceuticals (n=44)	72.4	7.8	71.3	0.61***	138%
IT Services (n=38)	69.7	7.4	68.9	0.54***	124%
Banking & Finance (n=51)	61.3	6.9	63.4	0.47***	119%
Consumer Goods (n=47)	58.8	6.6	61.2	0.39***	109%

Sector	Mean CSR Quality (/100)	Stakeholder Satisfaction (/10)	Reputation Index (0-100)	CSR Quality→Reputation $\beta$	CSR Spend (% of Min)
Extractive Industries (n=44)	47.2	5.8	52.7	0.28**	104%
Overall (n=224)	61.9	6.9	63.5	0.43***	112%

## 4. Results

### 4.1 CSR Expenditure vs. Quality Effects

The SEM results confirm the central hypothesis: CSR expenditure level alone is not significantly associated with firm reputation ( $\beta=0.09$ ,  $p=0.18$ ), while CSR programme quality is strongly and significantly associated with both stakeholder satisfaction ( $\beta=0.51$ ,  $p<0.001$ ) and firm reputation ( $\beta=0.43$ ,  $p<0.001$ ), with stakeholder satisfaction partially mediating the quality-reputation relationship (indirect effect: 0.22, bootstrapped 95% CI: 0.14-0.31). This finding is theoretically significant: it implies that the regulatory design of mandatory CSR — focused on expenditure quantum compliance — is misaligned with the quality-based mechanism through which CSR generates stakeholder and reputation value. Firms that spend exactly 2% of profits on fragmented, low-quality CSR programmes generate essentially no reputation benefit, while firms that invest in high-quality, focused, multi-year programmes generate substantial reputation premiums at comparable expenditure levels.

Panel Granger causality tests confirm that CSR quality Granger-causes reputation improvement ( $F=7.84$ ,  $p<0.001$ ) with a 2-year lag, while the reverse causation (high reputation causing quality CSR) is not significant at conventional levels ( $F=1.23$ ,  $p=0.29$ ). This temporal analysis provides the strongest available causal evidence that the CSR quality-reputation relationship is forward-directional, ruling out the alternative explanation that high-reputation firms simply invest more in visible CSR quality as a signalling strategy without the relationship being causal.

### 4.2 Sector Heterogeneity

Pharmaceutical firms show the strongest CSR quality-reputation coupling ( $\beta=0.61$ ), attributable to the sector's distinctive social licence to operate dynamics: pharmaceutical pricing controversies, drug access debates, and clinical trial ethics scrutiny create a reputation risk environment where high-quality CSR in healthcare access and community health programmes generates disproportionate reputational protection value. Extractive industries show the weakest coupling ( $\beta=0.28$ ), consistent with literature on social licence challenges in mining and energy: pre-existing community distrust and environmental reputation deficits may require sustained CSR quality investment over longer time horizons (>3 years) before reputation effects materialise, beyond the current study's observation window for some sample firms.

## 5. Discussion

The expenditure-quality distinction has immediate policy implications for the Ministry of Corporate Affairs' mandatory CSR framework. The current regulatory architecture — requiring expenditure disclosure through CSR-2 forms but lacking mandatory impact assessment or beneficiary satisfaction reporting — creates compliance incentives aligned with expenditure quantum (meeting the 2% threshold) rather than programme quality (achieving measurable social impact). The evidence that quality rather than quantity drives stakeholder and reputation value suggests that regulatory reform should shift the compliance architecture toward outcome-based reporting: requiring independent third-party impact assessment for programmes exceeding Rs. 1 crore, beneficiary satisfaction surveys as a CSR-2 mandatory attachment, and SDG alignment certification for thematically focused programmes.

The pharmaceutical sector's high CSR quality-reputation coupling suggests that industry-specific CSR quality minimum standards — calibrated to the distinctive stakeholder risk profiles and social licence requirements of each sector —

may be more effective than the current uniform expenditure mandate across all sectors. SEBI's Business Responsibility and Sustainability Reporting framework, now aligned with global GRI and TCFD standards, provides an adjacent regulatory architecture through which sector-specific CSR quality standards could be implemented for listed entities.

The strong employee stakeholder component in the CSR quality-reputation mechanism — employee representatives giving significantly higher reputation scores to firms with high CSR quality ( $r=0.61$ ,  $p<0.001$ ) — has implications for the employee value proposition and talent attraction context. In India's tight talent market for skilled professionals, where employer reputation is a documented determinant of candidate choice (LinkedIn India Talent Trends Survey, 2023), CSR quality investments that generate strong employee stakeholder satisfaction may generate internal human capital returns that complement the external market reputation benefits, creating a dual value creation pathway that justifies quality CSR investment at expenditure levels modestly above the mandatory minimum.

## **6. Conclusion**

SEM analysis of 224 BSE 500 firms over FY2015-2024 demonstrates that CSR programme quality — not expenditure level — is the primary driver of stakeholder satisfaction and firm reputation under India's mandatory CSR regime. High-quality CSR (focused, continuous, independently assessed, community need-aligned) predicts stakeholder satisfaction ( $\beta=0.51$ ) and reputation ( $\beta=0.43$ ), with expenditure level showing no significant independent reputation effect ( $\beta=0.09$ ,  $p=0.18$ ). Pharmaceutical firms achieve the strongest CSR quality-reputation coupling, while extractive industries show the weakest. Policy recommendations for MCA include mandatory third-party impact assessment disclosure in CSR-2 forms, beneficiary satisfaction reporting, and outcome-based CSR tax credit incentives that shift corporate behaviour from compliance minimalism to programme quality optimisation. The fundamental regulatory design lesson is that social impact — not financial throughput — must be the primary metric of mandatory CSR programme success.

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