Indian Journal of Law
ISSN: 3048-4936 | Vol. 3 Issue 3 | May– Jun 2025 | Peer Reviewed & Refereed

A comparative analysis of corporate governance and CSR: lessons from India, UK and USA

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Accepted 22/06/2025 Published:30/06/2025
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How to Cite this Article: Gupta, M & Sharma, A (2025). A comparative analysis of corporate governance and CSR: lessons from India, UK and USA. *Indian Journal of Law, 3(3), 34*-47.

Abstract

Corporate governance and Corporate Social Responsibility (CSR) define business practices, engagement of stakeholders, and regulatory compliance, thereby guiding ethical and sustainable functioning of corporations. "This article compares corporate governance and CSR systems in India, the UK, and the USA by means of an analysis of their regulatory systems, governance structures, and approaches to corporate responsibility. India has formalized CSR and required that certain businesses commit money for social initiatives by way of the Companies Act, 2013. The UK uses a principle-based corporate governance model with a comply or explain approach under ESG standards, therefore encouraging voluntary yet regimented CSR projects. Although CSR is primarily voluntary, molded by institutional investors and corporate activism, the USA promotes shareholder value preservation by means of legislation like the Sarbanes-Oxley and Dodd-Frank Acts utilizing its market-driven governance framework. Important differences among these countries in regulatory enforcement, stakeholder orientation, and governance theories are underlined in the study. It also suggests best practices that might enhance corporate governance and CSR performance wherever. By means of research of institutional complementarities and governance-CSR connections, this paper provides insights on encouraging transparency, responsibility, and sustainable corporate operations for lawmakers, businesses, and stakeholders. The findings support the wider general discussion on moral corporate conduct in a contemporary worldwide society.

Keywords: Corporate Governance, Corporate Social Responsibility, CSR Regulations, India, UK, USA, Shareholder Primacy, Stakeholder Approach, ESG, Business Ethics, Sustainability.

Introduction

Rising as the foundations of contemporary business operations, corporate governance, and corporate social responsibility (CSR), corporate sustainability, stakeholder participation, and economic development are greatly impacted by these characteristics. Since it guarantees that businesses run in a way that benefits stakeholders and shareholders, corporate governance offers the framework for moral decision-making, responsibility, and openness within businesses. Conversely, CSR promotes as basic elements of corporate strategy ethical behavior, environmental sustainability, and social responsibility, therefore transcending legislative restrictions. While CSR stresses a company's wider responsibility to society including ethical, social, and environmental factors, corporate governance mostly addresses issues regarding corporate control, board structures, and regulatory compliance. Emphasizing important parallels, differences, and lessons that may be learned from every nation, this study looks at corporate governance and CSR regulations in India, the UK, and the USA. Using the Companies Act, 2013 India has established a mandatory CSR policy wherein qualified companies have to set aside some of their income for social projects, effectively institutionalizing CSR into corporate governance systems. Under the UK Corporate Governance Code, the UK has a principle-based corporate governance system under which it encourages a comply or explain approach, therefore preserving a voluntary but strongly sanctioned CSR framework matched with Environmental, Social, and Governance (ESG) requirements. Driven by institutional investors, regulatory expectations, and shareholder activism, the USA—which is distinguished by its market-driven model—emphasizes shareholder primacy with severe financial restraints as the Sarbanes-Oxley Act and Dodd-Frank Act but pursues a mostly voluntary CSR approach. The junction of corporate governance and CSR throughout these countries emphasizes how businesses are shifting their obligations in handling social issues while guaranteeing financial success. While the USA's investor-driven governance framework stimulates economic advantage by means of sustainability projects, India's regulatory-driven CSR model promotes organizational responsibility; and the UK's stakeholder-centric approach supports flexibility and ethical leadership. These differences expose how closely interactions among government obligations, business self-regulation, and societal expectations influences corporate conduct. With an eye on the results of legal requirements, governance systems, and company involvement with social responsibility, this paper investigates how corporate governance and CSR interact in three countries. It also takes into account how various governance structures influence CSR acceptance in governmental and commercial policies, NGOs, corporate-stakeholder interactions—institutional frameworks. This paper attempts to provide critical study of the effectiveness of multiple governance models in fostering responsible corporate conduct by means of an examination of corporate governance and CSR in different legal and financial environments. The study also emphasizes great concepts that may be used elsewhere to increase corporate accountability, openness, and sustainability. Understanding the dynamics of corporate governance and CSR in India, the UK, and the USA will help legislators, business leaders, and stakeholders trying to balance financial performance and long-term social value creation in a time when companies are under more scrutiny for their ethical and social impact. Gradually, this comparative study will help to shape the discussion on worldwide corporate responsibility by means of recommendations for an integrated governance-CSR approach supporting company sustainability, investor confidence, and social well-being.

CSR as a Complementary Institution to Corporate Governance

The literature on Corporate Social Responsibility (CSR) is extensive, but this study focuses on institutional approaches to CSR. Three motivations are identified: instrumental, relational, and moral. Instrumental motivation is driven by self-interest and is associated with enhancing international competitiveness. Relational motivation is driven by maintaining cooperative relationships among stakeholders and minimizing social exclusion. Moral motivation is driven by long-standing national values and collective responsibility for social progress. These motivations co-exist to varying degrees in different contexts. For a comparative approach, the framework highlights the importance of national arrangements such as public and private regulation, NGOs, institutionalized norms, associative behavior, and dialogues among corporations and stakeholders". The mechanism by which national institutional arrangements shape CSR is less clear, but corporate governance serves as a missing link to understanding how institutions shape CSR.

Corporate governance and Corporate Social Responsibility (CSR) are interconnected concepts. Corporate governance involves relationships among stakeholders who make direct investments in a firm, such as financial or human, while CSR considers a wider range of stakeholders who do not make investments. "Institutional complementarity, a positive feedback mechanism, is used to define the link between corporate governance and CSR. However, studies have been limited in their focus on explicit forms of CSR and the mechanism of complementarity. To establish the link, the study examines whether actors in corporate governance and CSR adopt similar approaches to the firm or adopt different approaches to enhance the value of their institutions.

Corporate Governance Systems and CSR

The corporate governance system's orientation towards shareholders or a broader stakeholder group impacts firms' relationships with societal institutions and social obligations. In shareholder-focused systems, fiduciary obligations are primarily for shareholders and the company, while in stakeholder systems, directors and managers consider multiple constituents. However, multinational corporations operating over conflicting societies may face legal risks if they fail to consider broader interests, such as international human rights obligations. Despite these legal developments, company directors in Anglo-American companies still predominantly understand their fiduciary obligations to shareholders.

Corporate Social Responsibility (CSR) is influenced by how countries address social welfare provision. In countries with limited labor protections or socialized medicine, companies may be pressured to enact protective CSR programs to address social problems. In contrast, countries with a social democratic past or present, legislation requires more protection of labor and provision of social welfare benefits, allowing companies to act in the interest of employees, customers, suppliers, and communities by following the law and acting consistently with social norms. Institutional theory suggests placing CSR explicitly within a wider field of economic governance, including market, state regulation, and beyond. Jonathan Raelin and Krista Bondy contribute to this strand of institutional theory by exploring the second layer of agency theory between shareholders and society. They argue that shareholders have a role to act as agents for society's best interests, connecting them to society through a principal-agent relationship. Joakim Sandberg's article challenges Raelin and Bondy's view that shareholders can be understood as agents of general social welfare. Both articles address the fundamental question in shareholder-oriented corporate governance systems: what responsibilities do shareholders have for the social effects of that management focus.

Literature Review:

Ankur Shukla, et al., (2020) Their study conclude that the market risk of Indian banks is increasing due to presence of Independent directors in board panel. Neeti Khetarpal Sanan, et al., (2019) they are supporting the thought that financial performance of the firms is not influenced by Independent directors and other corporate governance factors (in Indian context). Debasis Pahi and Inder Sekhar Yadav (2019) Their study suggests that the stronger corporate governance having companies are paying higher dividends and there is positive correlation between corporate governance and dividend payment by the firms.

Nemiraja Jadiyappa, et al., (2019) First, they found that there is negative correlation between firm value and multiple banking relationships, which will lead to decline in substantial free cash flow. Nischay Arora and Balwinder Singh (2020) They found that there is negative linear relationship between under-pricing and promoter's ownership.

Puneeta Goel (2018) found that there is no relationship between financial *Student, P.G. Department of Commerce, Berhampur University **Assistant Professor, P.G. Department of Commerce, Berhampur University 30 performance indicators and sustainability reporting. Rita Goyal, et al., (2019) found that boards' roleeffectiveness is based upon variegation of functional experience.

Samridhi Suman and Shveta Singh (2020) Through their study they found that Research and development investments are substantially influenced by the presence of corporate governance. In 2018 the researcher mentioned that the introduction of corporate governance codes extensively will result into more efficient outcome in the company's (Shigufta Hena Uzma, 2018). The literature review shows that the several researches have been carried out on Corporate Governance standards in Indian context but there are

The genesis of Corporate governance in the Modern world

World War II lead the US towards economic growth, which had a powerful influence on the formation of Corporate Governance. In the year 1976, the term 'Corporate Governance' has appeared in the book of Federal Register.

The fundamental provenance of federal rules includes the Securities Act of 1933 and the Securities Exchange Act of 1934. Other regulations imposing disclosure and adherence requirements include the Sarbanes Oxley Act of 2002 and Consumer Protection Act of 2010, the Dodd-Frank Wall Street reform.

Name of development	Year of occurrence	Rules and regulations
The Foreign Corrupt Practices Act	1977	Certain provisions regarding internal control establishment, maintenance, and review.
US Securities Exchange Commission	1979	Obligatory rules regarding internal financial control
Treadway commission	1985	Focused on internal auditing and desire to create independent boards, the birth of committee of sponsoring organizations.
COSO issued Internal Control-Integrated Framework.	1992	Internal control is assessed and enhanced to help business.
Sarbanes – Oxley Act	2002	primary changes in the effect of every aspect of corporate governance in the Independence of auditor and general, conflict of interests, the responsibility of corporate and penalties for fraudulent activities by managers and auditors, in particular.
The Dodd-Frank Wall Street Reform and Consumer Protection Act,	2010	The law plays stern rules on lenders and banks in an effort of consumer protection and avoids another all-out economicrecession.

Source:*governance, risk management, compliances and ethics (ICSI) page 10-11*
Table:1 (Corporate governance Development in the USA)

U.S. Securities and Exchange Commission: To protect investors' interest, maintain fair order and efficiency in the security market is the foremost objective of the U.S. Securities and Exchange Commission. Sarbanes-Oxley Act had passed in the year of 2002 by the US Congress to protect the shareholders and public from fraudulent activities by organizations and also disclosure of corporate governance methods.

Name of development	Year	Rules and regulations
Cadbury Report	1992	In an organization, there should be a separation in key personnel executive roles. There should be an audit committee for each board, which would be consisting of non-executive members. The number of nonexecutive directors should be 3 and out of them, there would be no financial relationship with executives.
Greenbury Report	1995	Commencement of Remuneration Committee and scope of the remuneration committee and performance analysis attached to the remuneration committee. Established for the director's remuneration.

Indian Journal of Law
ISSN: 3048-4936 | Vol. 3 Issue 3 | May– Jun 2025 | Peer Reviewed & Refereed

Hampel Report	1998	Revision of Cadbury and Greenbury Committee and development in the area of audit and answerability.
Combined Code Corporate Governance	1998	All kinds of funds usage should be disclosed. For voting Institutional investors are held responsible. The chairman would be held as a leader for non-executive members.
Turnbull Report	1999	Ensuring proper internal control and audit to vouch for that. Preventing problems before it escalates to scandals.
Myners: Review of Institutional Investment	2001	Constraints are highlighted while making investing decisions by institutional investors.
Higgs Report	2003	The scope and requisite of Independent board directors and Audit Committee members are mentioned.
Walker Review of Corporate Governance of UK Banking Industry	2009	Corporate governance in Banking industry review and recommendation for growth in that sector.
Sharman Inquiry	2011	Liquidity risk and going concern issues addressed to companies and auditors as a whole.
Stewardship Code	2010-2012	Qualitative interaction between institutional investors and companies. Addressed a key issue regarding who will manage institutional investors' assets on behalf of them in the organization.
Revision of Combined Codeon Corporate Governance	2003-2016	Corporate governance Scope for listed companies to attain good governance as well as growth.
New 2018 UK Corporate Governance Code	2018	Focusing on the creation of positive relations among the company, shareholders, and stakeholders by diversity and longer-term success.

Source: governance, risk management, compliances and ethics (ICSI) 12-15 Table:2 (Corporate governance Development in the UK)

The Financial Reporting Council (FRC) assesses the quality of Reporting by Corporates. In the year 2018 on July 16, the financial reporting council had published the new 2018 UK Corporate governance code, which consists of revised guidelines and the effectiveness of the board by implying appropriate corporate governance practices that could be helpful for the improvement of companies' performances. The scope of the new governance codes encompasses every listing company in the UK and also new governance codes came into effect on 1st January 2019 or after it.

Background of Corporate Governance in India:

The government of India in the year 1991 had taken some measures to get along the growth of the domestic economy with the globalization, liberalization, where Corporate governance genesis in modern India had taken place.

Name of development	Year	Rules and regulations
Desirable Corporate Governance: A Code	1998	The first initiative had taken by CII towards the establishment and promotion of Corporate governance practices among Companies (the private company also included).
Kumar Mangalam Birla Committee	1999	The first initiative had taken by CII towards the establishment and promotion of Corporate governance practices among Companies (the private company also included).
Task Force on Corporate Excellence through Governance	2000	Corporate Excellence along with the introduction of Corporate governance standard among Indi
Naresh Chandra Committee	2002	Examining and amending Corporate Governance standards of India. Creation of law regarding auditorclient relationship and role of Independent board of directors.
N. R. Narayana Murthy Committee	2003	Assessing Clause 49 of SEBI, complying by the Indian firms and its statistics. Revision of Clause 49 for more effective and reliable standards, to protect investors.

Dr. J. J. Irani Committee on Company Law	2004	Condensing the regulation and introduction of flexibility in rules, to adopt international standards in Indian firms. Creation of 'shareholder's relationship committee'.
CII's Task Force on Corporate Governance	2009	For sustainable development of the business task force suggested adopting a 'triple-bottom-line' approach.
NASSCOM Recommendations	2010	The recommendation was issued for Corporate governance and ethics for the sake of shareholders by NASSCOM.
Policy Document on Corporate Governance	2012	Articulation of FORM 17 of Corporate governance standards guiding Principle of Corporate Governance.
Companies Act	2013	Commencement of New companies acts for radical change in Corporate Governance and involves key structures and roles, disclosures by the Indian firms.
SEBI (Listing Obligations and Disclosure Requirements) Regulations	2015	Commencement of LODR (Listing Obligation and Disclosure Requirements) under the New Companies Act 2013.
Uday Kotak Committee	2017	Corporate Governance Standards are recommended by the Kotak Committee for the improvement of existing standards of CG, which were accepted by the SEBI in 2018 march 27.

Source: governance, risk management, compliances and ethics (ICSI) page 33-37

Table:3 (Corporate governance Development in INDIA)

Corporate Governance practices:

According to the USA and UK, active shareholder participation is substantial in nature. In developing countries, people are getting interested in active shareholder participation, for which Indian firms are facing severe compulsion regarding the compliance of transparency, ethical standards of the company". The below section gives insight regarding the Companies

Act, 2013 overall framework for Corporate Governance factors, and improvements in the Indian context.

Independent Board Members Involvement in Board:

"In India, for listed companies, there is an obligatory rule regarding every aspect I.e., scope of an independent board of directors, which is mentioned in Schedule IV of the Companies Act 2013, Section 149(8). When we are comparing with UK Corporate governance with India then we have found that India is rule-based governance and UK has a principle-based one. The new Stewardship Code 2010 has been enforced by the UK to support the existing governance while promoting high corporate governance after the financial catastrophe of 2008-09 in the UK.

Independent Board of Directors' role:

Every listed company in India must have to appoint one-third of the total available directors as Independent directors, which is mentioned in the New Companies Act 2013, Section 149(4). To ensure high-quality Corporate Governance standards SEBI has declared for Independent directors as norms that there would be no nominee director, banning on stock options, Compulsory performance assessment, exclusive meetings for Independent directors, number of companies has curtailed to 7 and many more key aspects for Independent directors. In the UK the Independent director is two-third of the existing board of directors whereas in the USA the board members are Independent directors except for the Chief Executive Officer. As per SEBI Listing Obligation Disclosure Requirement (LODR) 2015, Regulation 17(1)(a) provides that Board of directors shall have an optimum mix of executive and non-executive members and minimum one-woman director and not less than fifty per cent. of the board members should consist of non-executive members; For top 500 companies should have 1-woman director (Independent) by 1st April 2019 and for top 1000 companies should appoint woman director by 1st April 2020.

Role of Audit Committee:

Those listed companies having paid-up capital of 100 Crore rupees or the borrowing/ deposits/ debentures are more or aggregate value exceeds 200 Crore rupees would come under the Companies Act 2013 of Section 177. The chairperson along with other board of directors should have sound knowledge regarding the assessment of the financial statement of the companies. The staple reason of the audit committee is to access and analyse the company's' performance especially financial performance as well as board members' performance as a whole. As per Regulation 18(2)(c) of the SEBI Listing Regulations, 2015 The audit committee should have Authority to assess any activity within its terms of reference, seek information from employee, and to obtain outsider legal or professional guidance and secure attendance of outsiders with relevant expertise, if it considers as requirement.

Evaluation of Board Members:

The performance of a board and its committees, independent as well as non-independent directors are assessed as per Companies Act 2013 compulsory. The board performance should be reported in the annual report of the company as per the Companies Act 2013 of Section 134. As per Schedule IV of the Companies Act 2013, an Independent director should evaluate the performance of a board.

Remuneration to Board members:

For directors and key personnel, there should be a remuneration committee and remuneration policy as per Companies Act 2013 of Section 178. The Companies Act 2013 also recommends the composition and level of a remuneration committee. The US Security Exchange Commission announced that most public companies should disclose the remuneration paid to the personnel as the Dodd-Frank Act of Section 953 (b), which had issued on 18th September 2013. As per Regulation 19 of SEBI (LODR) Regulations, 2015 the remuneration Committee should comprise 3 members and they must be nonexecutive members, and two-third of them should be Independent board members. The Chairperson of Remuneration Committee should be Independent board members. They should conduct a meeting at least once in a year.

Whistle-blower Protection:

In an organization, employees have to report to the management if they are getting any concerns regarding unethical practices or violating the principles of the company as per Clause 49. There should be a system regarding reporting of critical concerns prescribed by the listed companies as per Companies Act 2013 of Section 177 (9). The concept has been derived from US regulations. The listed companies should create a vigil system for directors and employees to report unfeignedissues under which they could have direct access to the chairman of the audit committee in appropriate or exceptional cases and create and reveal whistle blower policy. [Regulation 22 and 46 (2) (e)]

Gender Diversity:

To provide equal opportunity to women, the government had taken initiative towards the appointment of a woman board of directors in the organization, for which listed companies board require to appoint at least one-woman director on the board as per Companies Act 2013 of Section 149 (1). Various amendments take place in Clause 49 of SEBI.

Corporate Governance implication Constraints in India:

Several issues have been taking place regarding the Indian rules and regulations, accounting and auditing issues, and the practice and enforcement like as the independent directors' role and the distinction between cash flow and voting rights.

The major constraints are as follows:

1. Deficiency of incentives;
2. the power concentration;
3. Lack of strong regulation systems; and
4. Decay in qualified independent directors

However, various policy initiatives could be opted to advocate the practices of Corporate Governance:

- There should be a maximal degree of the rigidness in the application of corporate laws and regulations.
- There should be protection and education for infant investors.
- The existing structure regarding institutional investment should be recreated.
- A system should be created to enforce answerability and transparency.
- There should be developed regarding a systematic analysis and evaluation of the behaviour of Corporate Governance.
- Secretarial Audit to be Mandatory for Listed Entities and their Material Unlisted Subsidiaries (As per Kotak Committee 2017).
- Revealing the knowledge / skill of Board of Directors (As per Kotak Committee 2017). Clause 49 of SEBI is not able to cover every aspect of Corporate Governance. But with the help of the enactment of the New Companies Act 2013, there are many new mechanisms are formed to avoid unethical practices in India.

Conclusion

The recent evolutions in the regulatory rules and the expectation of governance related Corporate Governance practices in the country for more 35 investor's protection have substantially increased the hurdles for companies and the boards. The constraints are bound to expand further with the growing global companies working under different domestic and international domains. These situations will lead to a new operation territory for companies, and the compliance of Corporate Governance standards has become vital aspect. There is a requirement of establishment of strong Corporate Governance standards to create more transparency by companies, so as to improve the Corporate Governance index of India. While comparing with the UK and the USA. Therefore, more companies should follow the Corporate Governance standards. The corporate governance practices in UK are more effective as they are based on principle rather than rules & regulations based in the USA & India".

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