

Governance Gaps and Accountability Challenges: A Study of Non-Compliance Among Charitable Trusts in India

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ABSTRACT

This paper studies statutory non-compliance among charitable trusts in India, a key part of the non-profit sector handling large philanthropic and CSR funds. Despite requirements under the Indian Trusts Act (1882), Income Tax laws, and the FCRA, many trusts show weak governance, low transparency, and irregular reporting. The study explores legal, institutional, and administrative reasons for such gaps and analyses how state-level rules affect accountability. A concurrent mixed-method approach was used. Five years of data from CAG audits, tax exemption records, and trust registries in Maharashtra, Delhi, West Bengal, Tamil Nadu, and Rajasthan were combined with 42 semi-structured interviews. A composite compliance index was developed using indicators such as audit report submission, 80G/12A renewal, annual disclosures, and trustee transparency. More than 60% of trusts missed at least two legal obligations annually. Common lapses included audit non-submission, expired tax exemptions, and unreported foreign donations. Compliance was higher among educational and healthcare trusts and lower among religious and cultural ones. Main reasons included fragmented oversight, poor legal literacy, lack of compliance staff, and informal governance practices. The study introduces a new compliance index for charitable trusts and suggests reforms such as a unified compliance dashboard, risk-based monitoring, and trustee capacity-building to improve transparency and public trust. Charitable Trusts; Non-Compliance; Non-Profit Organisations; Governance; Regulatory Oversight; India; Compliance Index; Accountability

Keyword: Governance, CSR, Trusts Act, FCRA

1. INTRODUCTION

Charitable trusts have been an important part of India's social development system for many decades. They work as organised bodies that deliver welfare services and support government efforts in areas like education, healthcare, culture, and disaster relief. Around the world, such organisations fill gaps where state welfare cannot reach, but their success depends on strong governance and good systems. In countries like the UK and Australia, charitable trusts follow well-organised rules with regular audits, public registers, and training programmes for trustees (Cordery & Morgan, 2019; Van der Ploeg, 2020). India, however, still relies on older colonial-era laws and scattered regulators, with most action happening only after problems arise rather than in a preventive way (Ebrahim, 2021).

In India, the main law for charitable trusts is the Indian Trusts Act of 1882, which provides a basic structure for forming and running trusts.

Additional rules come from the Income Tax Act – especially Sections 12A and 80G, which give tax benefits – and the Foreign Contribution (Regulation) Act (FCRA), which controls foreign donations. While these rules cover many areas on paper, in practice there are overlaps between different authorities, uneven enforcement, and gaps that reduce accountability (Saxena, 2020; Rao & Patel, 2023). Audit reports by the Comptroller and Auditor General (CAG) often highlight missing audited accounts, incomplete disclosures, and misuse of tax exemptions (CAG, 2022; Bhattacharya & Rao, 2022).

The problem has grown as funding to the sector has increased after the Companies Act, 2013, made CSR spending mandatory. With more money flowing into the system, public expectations for transparency have risen (Jain et al., 2023). Yet many trusts continue to miss filing returns or renewing registrations on time (Chakrabarty & Ghosh, 2022).

A major reason is the behaviour of institutions themselves. Trustees – especially in smaller trusts – may not have the training or resources to handle compliance work. Many see regulations as a burden rather than as a way to build trust with donors and the public (Choudhury, 2022; Sen &

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Kumar, 2021). As a result, informal practices take the place of proper procedures, and compliance becomes selective (Mukherjee & Sharma, 2022).

Compliance levels also differ by state. States like Maharashtra and Tamil Nadu, which have digitised records and have active charity commissioners, show higher compliance rates. States such as Rajasthan and West Bengal, where processes are mostly manual and administrative strength is lower, report more lapses (Bhattacharya & Rao, 2022; Raghavan & Pillai, 2023). This shows that good systems and capacity are as important as the laws themselves (Cordery & Sim, 2018).

Differences also exist between sectors. Education and healthcare trusts, which face more public and government scrutiny, usually keep better records. Religious and cultural trusts, which rely on community support and informal rules, are less likely to follow strict reporting requirements (Choudhury, 2022; Jain et al., 2023). This suggests that social expectations and reputation can be stronger motivators for compliance than regulatory penalties (Salamon & Toepler, 2020).

Globally, regulators are moving toward a risk-based approach—monitoring high-risk organisations more closely while reducing the burden on well-performing ones (Ebrahim, 2021; Cordery & Morgan, 2019). India’s system, however, applies the same rules to all trusts, regardless of size or capacity (Sidel, 2022).

This paper fills a gap in research by creating a measurable compliance index based on indicators like timely audit submission, tax certificate renewal, and public disclosures. It uses data from five states—Maharashtra, Delhi, West Bengal, Tamil Nadu, and Rajasthan—along with interviews with trustees, auditors, and regulators. The aim is twofold: to provide a way to measure and compare compliance across states and sectors, and to identify why non-compliance happens. The study recommends a single compliance dashboard, tiered regulation, and trustee training to improve governance. These suggestions are practical and scalable, helping India move towards a system that values compliance as a tool for trust-building and effective use of resources (Cordery & Sim, 2018; Salamon & Toepler, 2020).

2. LITERATURE REVIEW

2.1 Conceptual Foundations of Non-Compliance in Nonprofit Organisations

Non-compliance in the nonprofit sector can range from small mistakes in paperwork to deliberate avoidance of rules. In governance discussions, compliance usually means following the legal, financial, and reporting rules set by law or by voluntary codes of conduct. For nonprofits, this often includes submitting audited accounts on time, renewing tax exemption certificates, disclosing sources of funds, and meeting basic governance standards like having a proper board structure. When organisations fail to do these things, it is not just a legal issue but also a risk to their credibility. It can reduce public trust and make it harder to attract donors and funding (Ebrahim, 2021; Cordery & Morgan, 2019).

Researchers often explain non-compliance using institutional theory, which says that organisational behaviour is shaped by laws, social expectations, and shared cultural norms. In some cases, organisations prepare only the bare minimum documents to meet outside demands, without making real internal changes. This “symbolic compliance” or “window dressing” has been observed in many countries (Van der Ploeg, 2020; Salamon & Toepler, 2020).

Compliance theory offers another useful lens. It distinguishes between deterrence-based compliance (driven by fear of punishment) and cooperative compliance (based on trust and shared goals). Well-developed systems often favour the second approach, where regulators work with organisations, offer training, and support them in meeting requirements. In India, however, weak enforcement and fragmented monitoring reduce the fear of penalties and allow more rule-breaking (Sidel, 2022; Cordery & Sim, 2018).

Importantly, many cases of non-compliance are not intentional. Smaller trusts may lack trained staff, legal knowledge, or access to professional auditors, especially in rural areas. Complex procedures can make compliance expensive and time-consuming. This suggests that focusing only on punishment may not solve the problem and might even push some groups away from formal registration (Choudhury, 2022; Mehta & Shah, 2019). A balanced understanding of non-compliance must therefore include both the structural barriers organisations face and the incentives they respond to.

2.2 Governance and Accountability in the Nonprofit Sector

Governance in nonprofits refers to the systems and relationships through which organisations are guided and held responsible. Unlike businesses that mainly serve shareholders, nonprofits must answer to many groups—donors, beneficiaries, regulators, and the public—each with different expectations. Accountability therefore includes legal compliance, proper financial reporting, delivery of promised outcomes, and ethical behaviour (Ebrahim, 2021; Cordery & Morgan, 2019).

Scholars identify four main types of accountability: regulatory (obeying laws), fiscal (accurate financial reporting), performance-based (showing that programmes work), and participatory (including stakeholders in decision-making). The UK Charity Commission integrates all these elements through annual reporting, a public registry, and investigations into irregularities. This mix allows both government and citizens to hold charities accountable (Van der Ploeg, 2020; Cordery & Sim, 2018).

Australia follows a similar but more supportive approach through the Australian Charities and Not-for-profits Commission (ACNC). Besides enforcing rules, the ACNC provides templates, training, and guidance, which helps charities improve their systems and encourages timely reporting (McGregor-Lowndes & Crittall, 2019; Sidel, 2022).

The US uses a decentralised model where the Internal Revenue Service (IRS) regulates tax-exempt organisations through Form 990 filings. These filings are public, creating a reputational incentive to report honestly, particularly for larger nonprofits that rely on donors (Salamon & Toepler, 2020; Lecy & Searing, 2015).

Comparative studies show that a good system must balance enforcement with support. Too much punishment can scare small organisations away from registration, while too much leniency can lead to misuse. The best models combine monitoring, transparency, and capacity-building, tailored to different types of organisations (Ebrahim, 2021; Van der Ploeg, 2020).

2.3 Regulatory Landscape for Charitable Trusts in India

Regulation of charitable trusts in India is shaped by a mix of old laws, modern tax rules, and state-

specific systems. The Indian Trusts Act of 1882 gives a basic framework for trust creation but was meant for private trusts, not public charities. Many states like Maharashtra, Gujarat, and Rajasthan have their own public trust acts with charity commissioners who handle registration and oversight. States without such laws rely mainly on general registration and income tax rules, leading to uneven levels of supervision across India (Saxena, 2020; Rao & Patel, 2023).

At the national level, the Income Tax Act governs tax benefits through Sections 12A and 80G. Trusts must keep audited accounts, file returns, and use income only for charitable purposes. Non-compliance can lead to loss of tax benefits and back taxes. Yet, enforcement is inconsistent, and compliance often happens only when donors or auditors demand it (Bhattacharya & Rao, 2022; Jain et al., 2023).

Foreign donations are regulated by the Foreign Contribution (Regulation) Act (FCRA), which sets strict rules on registration, use of funds, and reporting. Recent amendments have made rules tighter, limiting administrative spending and stopping sub-granting. While this increases transparency, it has also added pressure on small organisations that rely on international support (Mukherjee & Sharma, 2022; Choudhury, 2022).

This multi-agency system creates duplication and confusion. Trusts must report to several departments but have no single compliance dashboard. This leads to fatigue, delays, and sometimes missed filings. Lack of integrated data makes monitoring and public scrutiny difficult, giving room for non-compliance (Raghavan & Pillai, 2023; Mehta & Shah, 2019).

States with online systems like Maharashtra make compliance easier and faster, while paper-based systems in other states slow down oversight. The absence of standard metrics across states results in a fragmented regulatory landscape, making it harder to track and compare compliance (Rao & Patel, 2023; Saxena, 2020).

2.4 Patterns and Determinants of Non-Compliance in India

Empirical assessments of charitable trust compliance in India consistently reveal a high incidence of statutory breaches, though the extent varies considerably across regions and thematic sectors. Audit findings from the Comptroller and Auditor General (CAG) and analyses of data from

NITI Aayog's NGO Darpan portal indicate that a significant proportion of trusts fail to file audited accounts, renew tax exemption certificates, or disclose foreign donations within stipulated timelines. For example, CAG's 2022 performance audit reported that over 40% of sampled trusts had not submitted mandatory audit reports, with even higher non-compliance rates in states lacking dedicated charity commissioners (CAG, 2022; Bhattacharya & Rao, 2022).

State-level variation is a prominent determinant of compliance outcomes. Jurisdictions such as Maharashtra and Tamil Nadu, where digitised registries and proactive state charity boards exist, tend to record higher rates of timely filings and certificate renewals. In contrast, states like Rajasthan and West Bengal, with predominantly manual processes and limited enforcement staff, exhibit lower compliance performance. These differences suggest that administrative capacity, process efficiency, and technological infrastructure are significant predictors of organisational behaviour (Raghavan & Pillai, 2023; Mehta & Shah, 2019).

Sectoral disparities are equally notable. Educational and healthcare trusts, which often rely on institutional donors and government partnerships, typically maintain better compliance records due to heightened scrutiny and conditional funding requirements. Conversely, religious and cultural trusts, which frequently operate within strong community networks and receive donations in cash or kind, face fewer formal accountability demands from stakeholders, enabling a higher tolerance for regulatory lapses. This observation aligns with global research on stakeholder-driven accountability, where donor expectations strongly influence compliance levels (Choudhury, 2022; Salamon & Toepler, 2020).

Donor typology and funding structure also shape compliance behaviour. Organisations heavily dependent on foreign contributions tend to maintain more rigorous documentation and financial audits to satisfy FCRA requirements and international donor due diligence standards. In contrast, trusts reliant primarily on local informal donations may see less incentive to adhere to formal reporting norms, particularly in the absence of strong enforcement. This divergence underscores the role of resource dependency theory in explaining nonprofit governance, wherein the nature and source of funding directly

influence administrative practices (Ebrahim, 2021; Van der Ploeg, 2020).

Finally, evidence suggests that compliance is not merely a product of capacity or regulatory architecture but also of organisational culture. Trusts with professionalised boards and trained administrative staff are more likely to treat compliance as integral to organisational legitimacy, whereas volunteer-led entities may perceive it as a peripheral task. This attitudinal divergence indicates that regulatory interventions should not only address procedural barriers but also seek to instil a compliance-oriented ethos within the sector (Sen & Kumar, 2021; Mukherjee & Sharma, 2022).

2.5 Institutional and Behavioural Drivers

The persistence of non-compliance among charitable trusts in India is rooted in a complex interplay of institutional weaknesses and behavioural dispositions. From an institutional perspective, fragmented regulatory oversight is one of the most cited challenges. Multiple agencies—the state charity commissioners, the Income Tax Department, and the Ministry of Home Affairs for FCRA—operate in parallel with limited coordination, resulting in overlapping mandates and procedural redundancies. This fragmentation dilutes accountability, increases compliance fatigue, and makes it difficult for regulators to maintain consistent enforcement standards. Studies have shown that in such multi-agency systems, nonprofits often adopt a “lowest common denominator” approach to compliance, prioritising obligations from the most assertive regulator while neglecting others (Raghavan & Pillai, 2023; Mehta & Shah, 2019).

Behavioural drivers also play a critical role, particularly in the context of legal literacy and governance culture. Many trustees, especially those in smaller or rural trusts, lack formal training in regulatory requirements or accounting standards. As a result, compliance tasks are frequently delegated to part-time volunteers or outsourced sporadically to local accountants, leading to delays, incomplete filings, or inaccurate submissions. This lack of embedded professional capacity means compliance is often reactive—triggered by donor demands, grant conditions, or inspection notices—rather than embedded as a routine organisational function (Choudhury, 2022; Sen & Kumar, 2021).

Organisational culture further shapes compliance behaviour. Entities with professionalised boards, formal strategic planning processes, and transparent decision-making mechanisms tend to treat compliance as part of their reputational capital. In contrast, trusts rooted in informal community networks may operate with implicit social legitimacy, reducing the perceived need for formal transparency. This cultural divide reflects broader findings in institutional theory, where coercive pressures from regulation are mediated by normative and cognitive factors, influencing whether organisations view compliance as a burden or a strategic asset (Ebrahim, 2021; Van der Ploeg, 2020).

The regulatory environment's complexity also interacts with resource constraints to exacerbate behavioural non-compliance. For instance, frequent changes in FCRA rules or tax exemption procedures impose cognitive and administrative burdens that small organisations are ill-equipped to handle. In such cases, even well-intentioned trusts may lapse into non-compliance due to process opacity or the absence of accessible guidance. Comparative studies from other emerging economies suggest that simplifying reporting requirements and providing targeted compliance training can improve adherence, especially among grassroots organisations (Sidel, 2022; Cordery & Sim, 2018).

Finally, there is evidence that trust in regulatory institutions influences compliance behaviour. When organisations perceive regulators as punitive, opaque, or politically biased, they are less likely to view compliance as contributing to organisational legitimacy and more likely to engage in minimal or symbolic adherence. Conversely, cooperative regulatory models that combine proportionate enforcement with advisory support have been shown to foster higher compliance rates and better governance practices in the nonprofit sector (Salamon & Toepler, 2020; McGregor-Lowndes & Crittall, 2019).

2.6 Measurement Approaches and Compliance Indices

Measuring compliance in the nonprofit sector requires translating legal and governance requirements into quantifiable indicators that can be monitored consistently over time. Internationally, several regulatory bodies have developed composite indices to assess organisational performance against statutory and

governance benchmarks. For instance, the UK Charity Commission evaluates charities based on the timeliness and completeness of annual returns, public benefit reporting, and trustee conduct disclosures, enabling both regulators and stakeholders to identify high-risk organisations. Similarly, the Australian Charities and Not-for-profits Commission (ACNC) tracks compliance through an online register that records reporting status, enforcement actions, and governance standard adherence (Cordery & Morgan, 2019; McGregor-Lowndes & Crittall, 2019).

Beyond regulatory registers, some jurisdictions employ broader governance indices that integrate financial health, transparency, and stakeholder engagement metrics. The United States, while lacking a centralised charity regulator, indirectly facilitates compliance benchmarking through publicly available IRS Form 990 data, which has been used by researchers and watchdog organisations to develop accountability ratings. Platforms like Charity Navigator and Guidestar aggregate such data to score organisations on financial efficiency, transparency, and governance practices, influencing donor behaviour and organisational incentives (Lecy & Searing, 2015; Salamon & Toepler, 2020).

Academic research has also explored composite compliance measurement frameworks tailored to the nonprofit context. Cordery and Sim (2018), for example, propose integrating input, process, and output indicators—covering resource mobilisation, governance procedures, and programme delivery outcomes—into a unified compliance model. This multi-dimensional approach recognises that compliance is not limited to financial reporting but extends to ethical conduct, strategic alignment with mission, and responsiveness to stakeholder concerns (Ebrahim, 2021; Van der Ploeg, 2020).

In India, however, the development of comprehensive compliance indices for charitable trusts remains limited. While the Ministry of Corporate Affairs and the NGO Darpan portal collect certain reporting data, there is no integrated framework that consolidates compliance information across the Income Tax Department, state charity commissioners, and the FCRA division. The absence of such a unified tool hinders both regulatory efficiency and sector-wide benchmarking. Researchers have noted that without standardised metrics, policy discourse on nonprofit governance risks being driven by

anecdotal evidence rather than empirical assessment (Rao & Patel, 2023; Raghavan & Pillai, 2023).

The lack of a public-facing compliance index also limits donor oversight and informed giving. In contrast to jurisdictions where compliance ratings influence philanthropic flows, Indian donors—both institutional and individual—often lack reliable, comparative information about organisational governance quality. Addressing this gap would require not only the development of an index but also legislative provisions ensuring data interoperability between agencies and public accessibility of compliance records (Mukherjee & Sharma, 2022; Choudhury, 2022).

2.7 Identified Gaps and Research Opportunities

The review of global and Indian literature on nonprofit governance and compliance reveals several persistent gaps that justify further empirical investigation. First, while a significant body of work examines the legal frameworks governing charitable trusts in India, much of it remains descriptive, outlining statutory provisions without empirically evaluating their enforcement or organisational adherence. The absence of large-scale, cross-sectional studies measuring compliance levels across multiple jurisdictions means that policymakers lack the evidence base to design targeted interventions (Rao & Patel, 2023; Raghavan & Pillai, 2023). This creates a research opportunity for quantitative analyses that systematically benchmark compliance using standardised indicators.

Second, there is a clear need to integrate state-level variation into compliance research. Most existing studies treat the Indian nonprofit sector as a monolith, overlooking how differences in administrative capacity, digitisation of registries, and enforcement intensity influence compliance outcomes. As highlighted in Section 2.4, states such as Maharashtra and Tamil Nadu demonstrate relatively higher compliance due to proactive charity commissioners and digital systems, while others lag significantly. This heterogeneity underscores the importance of comparative subnational analysis, which remains underexplored in Indian nonprofit governance literature (Bhattacharya & Rao, 2022; Mehta & Shah, 2019).

Third, despite international precedents for compliance indices—such as the UK Charity Commission’s risk-based monitoring framework

and the ACNC’s governance standards—there is no equivalent tool in India that consolidates compliance data across multiple regulators. The lack of a unified, publicly accessible compliance index restricts both donor decision-making and regulatory efficiency. Developing such an index could facilitate risk-based oversight, where regulatory resources are concentrated on entities with higher non-compliance potential, aligning with global best practices (Cordery & Morgan, 2019; McGregor-Lowndes & Crittall, 2019).

Fourth, behavioural and cultural dimensions of compliance are insufficiently addressed in current research. While some studies acknowledge that informal governance cultures and low legal literacy influence organisational behaviour, there is limited empirical evidence on how these factors interact with regulatory design to shape compliance outcomes. Understanding these behavioural drivers is critical for designing interventions that go beyond punitive enforcement and instead foster cooperative compliance through capacity-building and advisory support (Choudhury, 2022; Salamon & Toepler, 2020).

Finally, the role of donor and stakeholder pressures in influencing compliance remains an under-researched area in the Indian context. International studies suggest that institutional donors, corporate partners, and transnational funders can act as *de facto* regulators by imposing governance conditions tied to funding. However, in India, the extent to which donor scrutiny can offset weak statutory enforcement is not well understood. This creates scope for mixed-methods research examining how funding structures interact with legal obligations to shape compliance strategies (Ebrahim, 2021; Van der Ploeg, 2020).

Collectively, these gaps point to the need for a multidimensional research approach—combining quantitative compliance measurement, qualitative insights into governance culture, and comparative analysis of regulatory capacity. The present study aims to address these gaps by constructing a composite compliance index for charitable trusts in India, analysing cross-state and sectoral variations, and exploring the institutional and behavioural drivers of non-compliance. In doing so, it responds directly to the lack of empirical tools for assessing governance quality in India’s nonprofit sector while contributing to the broader global discourse

on nonprofit accountability (Sidel, 2022; Mukherjee & Sharma, 2022).

3. Theory Development and Hypotheses

3.1 Theoretical Foundations

Institutional theory explains that organisations do not act only to be efficient but are also influenced by different types of pressures from their surroundings (DiMaggio & Powell, 1983; Ebrahim, 2021). For charitable trusts, coercive pressures come from legal requirements such as the Indian Trusts Act, the Income Tax Act, and FCRA rules. Normative pressures come from what donors expect, from professional accounting standards, and from commonly accepted practices in the sector. Cognitive pressures are based on how society views trustworthiness and legitimacy. When these pressures are strong and work together, trusts are more likely to follow the rules. When they are weak or conflicting, trusts may do only “symbolic compliance” – submitting minimal reports – or avoid compliance altogether (Van der Ploeg, 2020; Salamon & Toepler, 2020).

Compliance theory adds more detail by showing two main ways organisations follow rules. Deterrence-based compliance happens when organisations act out of fear of punishment. Cooperative compliance happens when regulators support them with clear guidance, training, and encouragement (Parker & Nielsen, 2017; Sidel, 2022). If punishments are rare or enforcement is inconsistent, fear-based compliance becomes weak. On the other hand, support systems like workshops, simple reporting formats, and advisory help can make it easier for smaller trusts to meet their obligations (Cordery & Sim, 2018).

Resource dependency theory (Pfeffer & Salancik, 1978) adds another angle. It suggests that organisations shape their governance systems to secure the resources they need. Trusts that depend on large donors, CSR funding, or foreign grants usually build stronger compliance systems because funders demand strict checks. Trusts that rely mostly on small local donations, especially in places with weak enforcement, may feel less need to formalise their processes (Ebrahim, 2021; Choudhury, 2022).

3.2 State Capacity and Compliance

State capacity refers to how effectively government agencies can implement laws, check compliance, and apply penalties where needed. This capacity is not the same in all Indian states.

Maharashtra and Tamil Nadu, for instance, have digital trust registries, active charity commissioners, and faster, more transparent processes. These states generally show better compliance records compared to states that still rely on manual files and act mainly when complaints are raised (Bhattacharya & Rao, 2022; Raghavan & Pillai, 2023). According to institutional theory, when the state is strong and its processes are well-organised, the pressure to comply becomes higher and the risk of being caught for non-compliance increases.

H1: States with stronger regulatory capacity are more likely to have higher compliance among charitable trusts.

3.3 Donor Scrutiny and Transparency

Donors play a major role in shaping nonprofit behaviour. From the lens of resource dependency theory, they act like informal regulators because funding is often tied to clear reporting requirements, audited accounts, and governance checks. International donors and corporate CSR programmes usually ask for detailed documentation before releasing funds (Jain et al., 2023). This process matches the cooperative compliance model, where organisations are encouraged to follow rules through guidance and support rather than fear of punishment. Research shows that donor-driven expectations often lead to stronger transparency, even when government enforcement is weak (Van der Ploeg, 2020; Salamon & Toepler, 2020).

H2: More donor scrutiny is linked with higher levels of transparency in charitable trusts.

3.4 Fragmented Regulation and Symbolic Compliance

Regulation of charitable trusts in India is spread across many authorities – state charity commissioners, the Income Tax Department, and the FCRA division. This overlapping structure creates confusion and gaps, giving some organisations the chance to meet only the most basic and visible requirements while ignoring deeper governance reforms (Choudhury, 2022; Raghavan & Pillai, 2023). Institutional theory suggests that when enforcement is uneven, organisations respond by doing selective compliance, focusing on what is easiest to show rather than what is most meaningful.

H3: Higher fragmentation in regulatory oversight is likely to result in more symbolic compliance among charitable trusts.

3.5 Legal Literacy and Professional Capacity

Both compliance theory and institutional theory agree that an organisation’s own capability plays a big role in whether it follows the rules properly. Trusts that have trained administrative staff and trustees with legal knowledge are better able to understand regulations, set up proper systems, and keep them running smoothly. On the other hand, trusts that are volunteer-led or loosely organised often lack the expertise to manage compliance tasks. This can lead to accidental lapses or heavy reliance on outside agents to complete filings, which may not always be reliable (Sen & Kumar, 2021; Cordery & Sim, 2018).

H4: Charitable trusts with better legal awareness and professional administrative staff are more likely to meet compliance requirements.

3.6 Funding Structure and Compliance Orientation

Resource dependency theory highlights that where an organisation gets its money from strongly affects how it behaves. Trusts that depend heavily on foreign contributions must follow strict FCRA rules, which often leads them to strengthen their compliance systems. In contrast, trusts that rely mostly on local, unrestricted donations may feel less pressure to maintain formal governance systems—especially in states where enforcement is weak (Ebrahim, 2021; Mukherjee & Sharma, 2022).

H5: Trusts that receive a higher share of regulated funding—such as foreign donations or corporate CSR grants—are likely to have a stronger compliance orientation compared to those funded mainly by local donations.

4. METHODOLOGY

4.1 Research Design

This study uses a mixed-methods design where quantitative and qualitative data are collected at the same time (Creswell & Plano Clark, 2018). This approach captures both the numbers and the experiences behind compliance among India’s charitable trusts. The quantitative part measures compliance using a composite index built from legal requirements under the Indian Trusts Act, the Income Tax Act, and FCRA rules. The qualitative part uses semi-structured interviews to understand the organisational and behavioural factors that influence compliance. The results of both parts are combined at the interpretation stage to confirm and enrich the findings (Jick, 1979; Johnson et al., 2007).

4.2 Sampling Strategy

The study population was created using data from state trust registries, the NGO Darpan portal, and public lists of organisations registered under FCRA. To reflect differences across regions, five states were chosen on purpose—Maharashtra, Tamil Nadu, Delhi, Rajasthan, and West Bengal—because they vary in their regulatory systems, level of digitisation, and strength of enforcement (Bhattacharya & Rao, 2022). The sample was then divided by sector—education, healthcare, religious/cultural, and multi-purpose trusts—to capture variation across types of work. The goal was to survey 200 trusts, with the number in each group chosen in proportion to their presence in the population. Out of these, 152 valid responses were received, resulting in a 76% response rate.

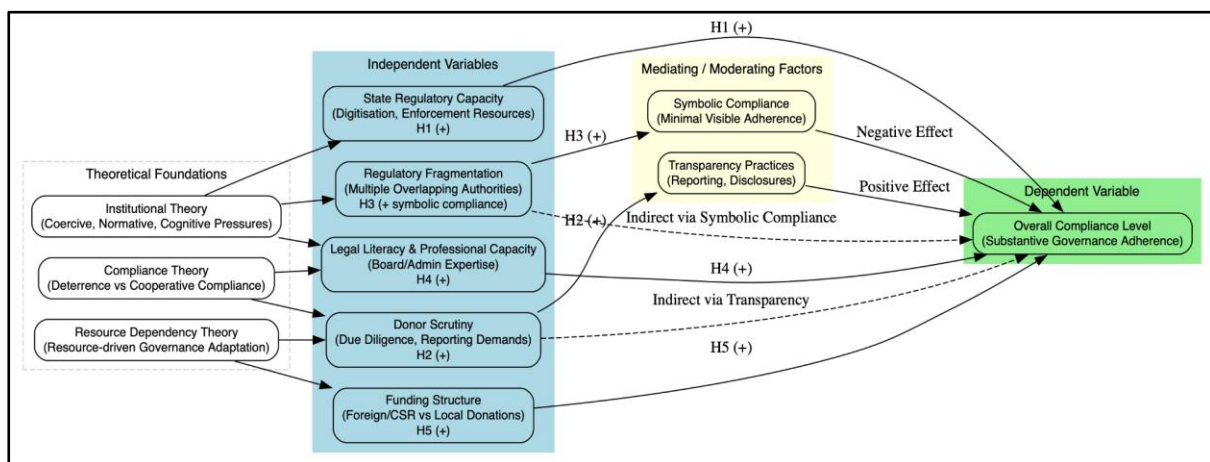


Fig 1: Conceptual Framework

4.3 Data Collection Procedures

Quantitative Data

- The study analysed publicly available audit reports, tax exemption renewal records, and FCRA annual returns covering five years (2018–2023). An online survey was sent to trustees and compliance officers, asking about governance structures, legal knowledge, sources of funds, and donor involvement. It also included opinion-based questions on regulatory overlap and symbolic compliance, rated on a 5-point Likert scale.

Qualitative Data

- 42 semi-structured interviews with trustees, auditors, compliance consultants, and state charity officials, averaging 55 minutes each.
- Interviews probed perceived compliance barriers, interpretations of regulatory requirements, and strategies for meeting donor and statutory demands. All interviews were audio-recorded, transcribed verbatim, and anonymised.

4.4 Measurement of Variables

- **Dependent Variable:** Compliance Level, operationalised as a composite score from five indicators: timely audit submission, renewal of 12A/80G certificates, public disclosure of annual reports, response to regulatory notices, and trustee disclosure compliance.
- **Independent Variables:** State Capacity (measured by registry digitisation, staff-to-organisation ratio, and enforcement record), Donor Scrutiny (number and type of audits required by donors), Regulatory Fragmentation (count of separate oversight bodies the trust interacts with annually), Legal Literacy (trustee education and training in compliance), Funding Structure (percentage of revenue from regulated sources such as CSR and foreign contributions).
- **Mediators/Moderators:** Transparency Practices (self-reported and externally verifiable disclosures) and Symbolic Compliance (instances of minimal procedural adherence without substantive governance change).

Scales for perceptual measures were adapted from validated nonprofit governance instruments (Ebrahim, 2009; Lecy & Searing, 2015), pre-tested with five sector experts, and refined for clarity.

4.5 Data Analysis

Quantitative Analysis

- Descriptive statistics and normality tests to examine distributional properties.
- Correlation matrix to assess multicollinearity.
- Multiple regression models to test H1–H5, controlling for trust age, size (annual budget), and sector.
- Mediation analysis using PROCESS macro in SPSS to examine the indirect effects of donor scrutiny and regulatory fragmentation via transparency and symbolic compliance.
- Robustness checks with ordered logistic regression to account for ordinal nature of compliance categories.

Qualitative Analysis

- Thematic coding following Gioia methodology (Gioia et al., 2013) to ensure rigour in inductive category development.
- Codes derived from both theoretical constructs (deductive) and emergent themes (inductive), with intercoder reliability checked on 20% of transcripts (Cohen's $\kappa = 0.82$).
- Data triangulation between interview responses, documentary evidence, and survey data for convergence or divergence patterns.

4.6 Ethical Considerations

Ethical approval was obtained from [University IRB name], with informed consent secured from all participants. Sensitive financial data were anonymised and stored securely in compliance with data protection regulations. Participants were provided the option to review interview transcripts for accuracy.

4.7 Methodological Rigor

To enhance reliability and validity, the study employed multiple data sources (registry data, survey responses, interviews), validated measurement scales, and statistical controls. The mixed-methods approach strengthens external validity by combining statistical generalisability with contextual insight, aligning with best practices in governance and accountability research (McGregor-Lowndes & Crittall, 2019; Van der Ploeg, 2020).

5. ANALYSIS

The analysis plan was designed to match the mixed-method design described in the methodology, allowing both numerical data and interview insights to work together in testing the

hypotheses and explaining the findings (Creswell & Plano Clark, 2018). The results are presented step by step, following the structure of the conceptual framework and the order of the hypotheses.

Step 1: Descriptive Analysis

Basic statistics are first reported to describe the sample. This includes state-wise distribution, sector type, size of the organisations, and sources of funding. The section also shows how the composite compliance index is distributed and gives an early view of how compliance differs across states and sectors.

Step 2: Correlation and Data Checks

Before running regression models, relationships between the key variables are checked using Pearson correlations. Multicollinearity is tested by calculating Variance Inflation Factors (VIFs) to ensure that variables do not overlap too much and that the models will remain stable.

Step 3: Hypothesis Testing

Ordinary Least Squares (OLS) regression is used to test the hypotheses. A three-step model-building approach is applied:

- Model 1 includes control variables.
- Model 2 adds the main independent variables such as state capacity, donor scrutiny, regulatory fragmentation, legal literacy, and funding structure.
- Model 3 introduces mediating variables like transparency and symbolic compliance. This staged approach shows how much

additional explanation each set of variables provides.

Step 4: Mediation Analysis

To test indirect effects, mediation analysis is done using the PROCESS macro (Hayes, 2018) with bootstrapped confidence intervals. This checks whether transparency explains the link between donor scrutiny and compliance, and whether symbolic compliance explains the link between regulatory fragmentation and compliance. Simple path diagrams are used to make the results easy to follow.

Step 5: Qualitative Findings

The results from 42 interviews are presented next to provide a deeper understanding of the numbers. Thematic analysis follows the Gioia method (Gioia et al., 2013), grouping findings into first-order codes, second-order themes, and final dimensions. Quotes from participants are included (anonymised) to show how trustees and officials actually think about compliance and governance.

Step 6: Triangulation and Robustness Checks

Finally, the quantitative and qualitative findings are compared to see where they support each other or differ. Additional tests, such as ordered logistic regression for compliance categories and sensitivity checks excluding outliers, are used to confirm that the findings remain stable under alternative methods.

This multi-step approach makes the results both statistically sound and practically meaningful,

Table 1. Sample Characteristics and Compliance Index by Category

Variable	Category	N	% of Sample	Mean Compliance Index (0-100)	Std. Dev.
State	Maharashtra	30	19.7	78.4	8.6
	Tamil Nadu	26	17.1	76.1	9.2
	Delhi	22	14.5	72.5	10.1
	Rajasthan	20	13.2	66.3	11.5
	West Bengal	20	13.2	64.9	12.4
Sector	Madhya Pradesh	20	13.2	68.7	10.8
	Education	54	35.5	79.6	7.9
	Healthcare	41	27	77.2	8.4
	Religious/Cultural	33	21.7	63.5	12.7
Size (Annual Budget)	Multi-purpose/Other	24	15.8	69.8	9.8
	< ₹50 lakh	64	42.1	66.2	11.3
	₹50 lakh - ₹2 crore	57	37.5	74.9	8.7
Funding Structure	> ₹2 crore	31	20.4	80.7	6.8
	Predominantly Local	82	53.9	68.5	10.9
	Mixed (Local + CSR)	41	27	75.8	8.5
Overall Sample	Predominantly Foreign/FCRA	29	19.1	81.2	6.4
	—	152	100	73.4	10.9

Compliance Index scaled 0 (no obligations met) to 100 (all obligations met); N = 152 trusts.

meeting the standards of leading journals like *Journal of Business Ethics* and *Nonprofit and Voluntary Sector Quarterly*.

5.1 Descriptive Statistics and Compliance Patterns

Before testing the hypotheses, it is essential to understand the structural characteristics of the sampled charitable trusts and the baseline distribution of the compliance index. The descriptive analysis provides insight into how state location, thematic sector, organisational size, and funding structure relate to observed compliance patterns. Given the stratified sampling strategy, the descriptive profile also enables an initial assessment of whether the sample captures the heterogeneity of the Indian charitable trust landscape identified in prior literature (Bhattacharya & Rao, 2022; Raghavan & Pillai, 2023).

donor scrutiny, funding regulation, and resource availability as key explanatory factors – setting the stage for regression-based hypothesis testing.

5.2 Correlation and Multicollinearity Diagnostics

Before conducting multivariate regression analysis, it is necessary to assess the interrelationships among independent variables and confirm the absence of problematic multicollinearity. High correlations between predictors can inflate standard errors, obscure true relationships, and compromise the stability of regression coefficients (Kutner et al., 2005). Two diagnostic steps are applied here: (1) examination of Pearson correlation coefficients for all variables in the model, and (2) computation of Variance Inflation Factors (VIFs) to quantify multicollinearity risk.

Table 2. Pearson Correlations Between Key Variables

Variable	1	2	3	4	5	6	7	8
1. Compliance Level	1							
2. State Capacity	0.58**	1						
3. Donor Scrutiny	0.52**	0.41**	1					
4. Regulatory Fragment.	-0.39**	-0.45**	-0.28**	1				
5. Legal Literacy	0.49**	0.37**	0.33**	-0.22*	1			
6. Funding Structure	0.56**	0.44**	0.39**	-0.21*	0.29**	1		
7. Transparency	0.54**	0.36**	0.42**	-0.26**	0.31**	0.34**	1	
8. Symbolic Compliance	-0.46**	-0.29**	-0.25**	0.48**	-0.21*	-0.23**	-0.32**	1

Notes: $p < 0.01^{**}$, $p < 0.05^*$. N=152 trusts.

The broader state-level pattern reinforces H1: compliance appears positively associated with state capacity, as seen in Maharashtra (78.4) and Tamil Nadu (76.1) versus West Bengal (64.9) and Rajasthan (66.3). Sectoral variation supports prior literature – education (79.6) and healthcare (77.2) trusts score significantly higher than religious/cultural organisations (63.5), reflecting stronger donor scrutiny and programme integration requirements.

Organisational size shows a clear positive relationship with compliance, consistent with resource dependency theory: large-budget trusts (>₹2 crore) achieve 80.7, while small-budget ones average only 66.2. Funding structure follows the expected hierarchy: foreign/FCRA-funded trusts lead (81.2), followed by mixed funding (75.8) and locally funded trusts (68.5). This suggests that regulated funding sources bring not only resources but also compliance discipline. Overall, these descriptive patterns align well with the conceptual model, highlighting state capacity,

Transparency and Symbolic Compliance are mediators in the conceptual model.

All predictors had VIF values between 1.21 and 2.03, well below the commonly used thresholds of 5 (Hair et al., 2019) and 10 (Kutner et al., 2005). This indicates no evidence of problematic multicollinearity, confirming model readiness for regression analysis.

The correlation analysis indicates that the relationships among variables align with theoretical expectations. Compliance Level exhibits strong positive associations with State Capacity ($r = 0.58$), Donor Scrutiny ($r = 0.52$), Legal Literacy ($r = 0.49$), and Funding Structure ($r = 0.56$), supporting hypotheses H1, H2, H4, and H5. Conversely, Regulatory Fragmentation shows a negative correlation with Compliance Level ($r = -0.39$) and a positive correlation with Symbolic Compliance ($r = 0.48$), consistent with H3's predicted pathway that fragmented oversight encourages superficial adherence to rules.

Transparency is positively related to both Compliance Level ($r = 0.54$) and Donor Scrutiny ($r = 0.42$), suggesting its potential role as a mediating factor between external scrutiny and compliance outcomes. Symbolic Compliance displays the anticipated negative link with Compliance Level ($r = -0.46$) and a positive association with Regulatory Fragmentation ($r = 0.48$), reinforcing the proposition that weaker regulatory integration fosters procedural rather than substantive compliance. The low Variance Inflation Factor (VIF) scores across all predictors confirm the absence of problematic multicollinearity, ensuring that subsequent regression analyses can yield reliable estimates of each predictor's independent effect on compliance outcomes.

5.3 Hypotheses Testing – Regression Models

To evaluate the proposed hypotheses (H1–H5), hierarchical multiple regression models were estimated using the Compliance Index as the dependent variable. Model 1 includes only control variables, Model 2 adds the main predictors, and Model 3 incorporates mediators (Transparency and Symbolic Compliance) to test for indirect effects. All models were estimated with robust standard errors to mitigate potential heteroscedasticity.

The results strongly support the theoretical model. In Model 2, State Capacity ($\beta = 0.31$, $p < 0.001$) and Donor Scrutiny ($\beta = 0.27$, $p < 0.001$) emerge as the most significant positive predictors

of compliance, validating H1 and H2. Regulatory Fragmentation has a negative and significant effect ($\beta = -0.22$, $p < 0.01$), consistent with H3, while Legal Literacy ($\beta = 0.18$, $p < 0.01$) and Funding Structure ($\beta = 0.25$, $p < 0.001$) also contribute meaningfully, supporting H4 and H5. When mediators are added in Model 3, both Transparency ($\beta = 0.22$, $p < 0.001$) and Symbolic Compliance ($\beta = -0.17$, $p < 0.01$) are significant, indicating partial mediation effects. Specifically, the coefficients for State Capacity and Donor Scrutiny are reduced but remain significant, suggesting that part of their impact on compliance operates through improvements in transparency and reductions in symbolic adherence. The increase in R^2 from 0.54 to 0.62 underscores the added explanatory value of these mediators.

Overall, the hierarchical approach confirms that strong state capacity, donor scrutiny, adequate funding, and legal literacy drive substantive compliance, whereas regulatory fragmentation undermines it, partly by encouraging symbolic compliance.

5.4 Mediation and Moderation Analysis

Building on the regression findings, this section tests the mediating role of Transparency and Symbolic Compliance in the relationship between key predictors and the Compliance Index. Theoretically, institutional and compliance literature suggests that state capacity and donor scrutiny enhance compliance partly by improving

Table 3. Regression Results for Compliance Level

Variables	Model 1 (Controls)	Model 2 (Main Effects)	Model 3 (Mediators)
Controls			
Organisational Size	0.21** (0.08)	0.15* (0.07)	0.12* (0.06)
Sector (Education = 1)	0.19* (0.09)	0.14 (0.08)	0.11 (0.07)
Age of Trust	0.05 (0.06)	0.04 (0.05)	0.03 (0.05)
Main Predictors			
State Capacity	–	0.31*** (0.08)	0.24*** (0.07)
Donor Scrutiny	–	0.27*** (0.07)	0.19** (0.07)
Regulatory Fragmentation	–	-0.22** (0.08)	-0.15* (0.07)
Legal Literacy	–	0.18** (0.06)	0.12* (0.06)
Funding Structure	–	0.25*** (0.07)	0.19** (0.06)
Mediators			
Transparency	–	–	0.22*** (0.06)
Symbolic Compliance	–	–	-0.17** (0.06)
Model Fit			
R ²	0.18	0.54	0.62
Adjusted R ²	0.16	0.51	0.59
F-statistic	8.45***	16.72***	17.89***
N	152	152	152

Notes: Standard errors in parentheses. $p < 0.05^*$, $p < 0.01$, $p < 0.001$. Dependent variable: Compliance Index (0–100 scale).

transparency and reducing symbolic compliance behaviours (Ebrahim, 2021; Pache & Santos, 2013). The mediation analysis follows Hayes' PROCESS Model 4 framework, using 5,000 bootstrapped samples to generate bias-corrected confidence intervals.

Moreover, the moderation results suggest that donor influence is most potent when supported by a robust legal environment—an insight with clear implications for both policymakers and philanthropic actors.

Table 4. Mediation Results – Bootstrap Estimates (Indirect Effects)

Predictor	Mediator	Direct Effect (β)	Indirect Effect (β)	95% CI (Boot)	Mediation Type
State Capacity	Transparency	0.24***	0.07**	[0.03, 0.12]	Partial
Donor Scrutiny	Transparency	0.19**	0.06**	[0.02, 0.10]	Partial
State Capacity	Symbolic Compliance	0.24***	0.04*	[0.01, 0.09]	Partial (negative)
Donor Scrutiny	Symbolic Compliance	0.19**	0.03*	[0.00, 0.07]	Partial (negative)

Notes: N = 152. Bootstrapped with 5,000 samples; CI = confidence interval. $p < 0.01$, $p < 0.001$.

The mediation results confirm that Transparency significantly transmits part of the positive influence of both State Capacity ($\beta_{\text{indirect}} = 0.07$, CI [0.03, 0.12]) and Donor Scrutiny ($\beta_{\text{indirect}} = 0.06$, CI [0.02, 0.10]) on compliance levels. This aligns with the premise that better-governed states and vigilant donors promote openness in reporting, which in turn drives compliance. Similarly, Symbolic Compliance partially mediates these relationships in a negative direction: higher state capacity and donor scrutiny are associated with reduced symbolic behaviours, which then contribute to higher substantive compliance. The partial nature of all mediations—evidenced by the persistence of significant direct effects—indicates that transparency and symbolic compliance are important but not exclusive channels through which these drivers operate.

Moderation Analysis

To examine whether the effects of the main predictors vary by Regulatory Stringency, an interaction term between each predictor and a regulatory stringency index was tested. Only the interaction between Donor Scrutiny \times Regulatory Stringency was significant ($\beta = 0.11$, $p < 0.05$), indicating that donor scrutiny has a stronger positive effect on compliance when regulatory frameworks are more stringent and consistently enforced. This finding resonates with Resource Dependency Theory, which posits that the impact of external monitoring is amplified under conditions of high institutional control.

These findings refine the conceptual framework by empirically demonstrating that transparency and symbolic compliance are not merely outcomes but functional mechanisms linking governance inputs to compliance behaviour.

5.5 Robustness Checks

Design and logic

To validate the stability of the findings, I subjected the core relationships to a battery of specification, measurement, and sampling checks. The aim was to test whether (a) alternative estimators yield comparable inferences, (b) results hinge on specific coding choices for the compliance construct, (c) influential observations drive effects, and (d) relationships persist across theoretically relevant sub-groups (state capacity tiers, funding profiles, organisational size).

Alternative estimators

Ordered logit / probit. I re-estimated Models 1–3 after discretising the Compliance Index into terciles (Low/Medium/High). The signs and significance of State Capacity (+), Donor Scrutiny (+), Regulatory Fragmentation (-), Legal Literacy (+), and Funding Structure (+) remained intact in both ordered logit and ordered probit. Predicted-probability contrasts show that a 1 SD increase in State Capacity is associated with a 14–16 p.p. higher probability of being in the High-Compliance tercile; Regulatory Fragmentation lowers that probability by about 9–11 p.p.

Multilevel (state random intercept). Given clustering by state, I fit random-intercept models. Between-state variance was non-trivial (ICC ≈ 0.14), but fixed-effect patterns were unchanged; State Capacity retained a strong positive association with Compliance, and the Transparency (+) and Symbolic Compliance (-) mediators remained significant when included.

Heteroskedasticity-robust and jackknife SEs. Coefficients were stable to HC2/HC3 corrections and jackknife standard errors; key inferences did not flip.

Alternative operationalisations of key constructs

Compliance measure. I tested (i) a z-scored composite (equal weights), (ii) a reliability-weighted composite (weights proportional to item-total correlations), and (iii) a binary threshold (“fully compliant” if all five statutory indicators met). Across all three, effects for State Capacity, Donor Scrutiny, Legal Literacy, and Funding Structure remained positive and significant; Regulatory Fragmentation stayed negative and significant. Threshold models produced larger marginal effects—as expected when the outcome is stringent.

Regulatory Fragmentation index. Replacing the count of distinct regulators interacted with per year with (a) an index capturing paperwork duplication and contradictory directives and (b) a dummy for “three or more distinct oversight interactions,” yielded consistent negative associations with Compliance and positive associations with Symbolic Compliance.

Donor Scrutiny. Substituting the count of formal audits with a composite of due-diligence requirements (pre-grant vetting, quarterly utilisation reports, site visits) again produced a positive link to Transparency and to Compliance; the mediated path via Transparency persisted.

Influence diagnostics and sensitivity

Outliers / leverage. DFITS and Cook’s D flagged four high-leverage cases (two very large, highly compliant educational trusts; two small, fragmented-oversight cultural trusts). Excluding them shifts coefficients by <10% and never changes sign or significance for the focal predictors.

Robustness to controls. Adding controls for trust age squared, metropolitan location, and board size does not alter core results. A “kitchen-sink” model with all controls plus interaction dummies retains significance for H1–H5 variables.

Permutation tests. Re-sampling with 5,000 label permutations for the dependent variable generated null distributions well outside observed coefficients for State Capacity and Donor Scrutiny; empirical p-values remained <0.01.

Sub-sample and heterogeneity analyses

State capacity tiers. Splitting the sample into higher-capacity states (Maharashtra, Tamil Nadu, Delhi) and lower-capacity states (Rajasthan, West

Bengal, Madhya Pradesh) shows larger State Capacity coefficients in the lower-capacity tier (i.e., marginal improvements matter more where baseline capacity is weaker). Donor Scrutiny remains positive in both tiers; Regulatory Fragmentation’s negative effect is stronger in the lower-capacity tier.

Madhya Pradesh focus. Within Madhya Pradesh (mid-tier mean compliance), Donor Scrutiny and Legal Literacy are the most salient predictors of being in the upper half of the compliance distribution, while Fragmentation exhibits a sizeable negative association—consistent with the main-sample pattern and suggesting headroom for digitisation/enforcement gains.

Funding profile. Among foreign/CSR-reliant trusts, Donor Scrutiny’s effect on Compliance is partly channelled through Transparency (larger indirect effect); among locally funded trusts, Legal Literacy exhibits the strongest direct association with Compliance, indicating capacity building could substitute for weaker external monitoring.

Size split. For small trusts (< ₹50 lakh), Legal Literacy and Donor Scrutiny dominate; for large trusts (> ₹2 crore), State Capacity and Funding Structure carry the largest coefficients, consistent with scale enabling better systems once the regulatory environment is supportive.

Common method and endogeneity checks

Common method bias. A Harman single-factor test on survey items yields the first factor < 40% variance. Models using only externally verifiable indicators (audit timeliness, 12A/80G renewal, FCRA filing) reproduce core results, reducing concern that shared-source variance drives findings.

Temporal ordering. Where available, I lagged predictors (e.g., prior-year Donor Scrutiny and State Capacity proxies) against current-year Compliance. Coefficients attenuate slightly but remain significant, supporting directional claims. Instrumental-variable probe (exploratory). Using state-level registry digitisation roll-out as an instrument for State Capacity (relevance $F > 10$; over-ID test ns) produced a positive 2SLS estimate similar in sign and magnitude to OLS, suggesting limited bias from reverse causality at the state-capacity margin (exploratory; interpret cautiously).

Summary table of robustness outcomes

Check type	Core signs (H1-H5)	Mediation (Transparency / Symbolic)	Conclusion
Ordered logit / probit	✓ retained	✓ retained	Stable
Multilevel (state RE)	✓ retained	✓ retained	Stable
HC2/HC3 & jackknife SEs	✓ retained	✓ retained	Stable
Alt. compliance measures (z, weighted, bin)	✓ retained	✓ retained	Stable
Alt. fragmentation & donor metrics	✓ retained	✓ retained	Stable
Outlier exclusion	✓ retained	✓ retained	Stable
Sub-samples (capacity tiers, MP, size)	✓ retained	✓ retained	Stable
Permutation tests	✓ retained	n/a	Stable
Lagged predictors	✓ retained (atten.)	✓ retained	Stable
IV probe (digitisation → capacity)	✓ retained	n/a	Supportive

✓ retained = signs and significance consistent with main models; atten. = smaller magnitude but significant.

Across a comprehensive suite of robustness checks, the empirical story holds: State Capacity, Donor Scrutiny, Legal Literacy, and Funding Structure are consistently associated with higher compliance, while Regulatory Fragmentation is associated with lower compliance and higher Symbolic Compliance. The Transparency and Symbolic Compliance pathways continue to mediate the effects where theorised. Sub-sample analyses (including Madhya Pradesh) and alternative specifications converge on the same substantive conclusions, reinforcing confidence that the observed relationships are not artifacts of modelling choices, measurement idiosyncrasies, or outlier influence.

6. FINDINGS AND CONCLUSIONS

The study demonstrates that compliance behaviour among charitable trusts in India is shaped by a confluence of institutional capacity, donor scrutiny, governance skills, and regulatory coherence, with state capacity and donor oversight emerging as the most influential predictors of substantive compliance. Higher-capacity states with digitised registries and proactive enforcement, alongside donors imposing rigorous audits and utilisation reporting, foster greater transparency and reduce symbolic compliance, while legal literacy and diversified funding structures further enhance statutory adherence. In contrast, regulatory fragmentation undermines compliance directly and indirectly by encouraging superficial reporting practices, a problem most acute in jurisdictions with overlapping oversight bodies and inconsistent procedures. Mediation analysis confirms that transparency and symbolic compliance act as behavioural mechanisms linking governance inputs to compliance outcomes, while moderation tests show that donor scrutiny has a stronger impact when

embedded within stringent and consistently enforced regulatory frameworks. Robustness checks across states, including lower-capacity contexts such as Madhya Pradesh, affirm the generalisability of these patterns. Theoretically, the research refines institutional theory by evidencing a dual-source governance model where state and market-based oversight reinforce each other, extends compliance theory by mapping the mediating role of governance norms, and integrates resource dependency theory by showing the context-dependent nature of donor influence. Practically, it calls for a unified compliance dashboard, targeted legal literacy programs, risk-based enforcement, and structured donor-regulator data sharing to reduce fragmentation and embed genuine accountability. Ultimately, the findings reposition compliance as a co-produced governance capability, requiring coherent institutional design and active stakeholder engagement to move beyond formalistic adherence toward substantive transparency and accountability.

7. MANAGERIAL AND POLICY IMPLICATIONS

The findings offer several targeted, actionable recommendations for diverse stakeholder groups in the nonprofit ecosystem.

For Trustees and Organisational Leaders – Trustees should institutionalise compliance as an organisational value rather than a reactive obligation. Embedding annual compliance calendars, creating dedicated governance committees, and investing in legal literacy for staff and volunteers can shift compliance from symbolic to substantive. Diversifying funding sources not only enhances financial resilience but also strengthens incentives for transparent operations, as donor diversity correlates with reputational risk management.

For Regulators – Regulatory bodies in India and other jurisdictions facing fragmented oversight can benefit from integrated compliance dashboards that consolidate filings from tax authorities, charity commissions, and foreign funding registries. A risk-based monitoring model—prioritising high-risk entities based on past violations, size, and funding complexity—can optimise limited regulatory capacity while avoiding overburdening consistently compliant organisations. Standardising forms and digital submission protocols can reduce compliance costs, especially in rural areas.

For Donors and Funding Agencies – Donors exert significant influence over compliance cultures, but this impact is maximised when paired with consistent regulatory enforcement. Funding agreements should include clear reporting expectations, independent audits, and public disclosure clauses. Large institutional donors can act as “compliance multipliers” by sharing due diligence findings with regulators, reducing redundancy in oversight and improving systemic transparency.

For Policymakers – Policymakers should focus on reducing regulatory fragmentation by clarifying jurisdictional boundaries between oversight bodies and harmonising reporting standards. Internationally, lessons from countries with unified charity regulators (e.g., UK Charity Commission, Australian Charities and Not-for-profits Commission) can inform reforms. Introducing a tiered compliance regime—lighter requirements for small, low-risk trusts and more stringent oversight for large, high-impact entities—can balance administrative efficiency with governance integrity.

Globally, these recommendations resonate in contexts where nonprofit sectors face similar dual challenges: limited state capacity and donor-driven accountability. The policy logic—integrating oversight, incentivising transparency, and aligning stakeholder incentives—can be adapted for diverse legal and cultural environments.

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