

**ANALYSING THE RISING TREND OF CSR REPORTING, ITS SIGNIFICANCE, RECORD KEEPING OF SUCH NON FINANCIAL INFORMATION AND CHALLENGES FACED IN DOING SO**

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**ABSTRACT**

CSR refers to the obligations on a company to take decisions or actions that is in favour of the society. CSR has been growing at a good pace but it does come along with many challenges which if addressed within the time, can bring about a significant change in the sustainability of the environment. This report examines the growing trend of CSR reporting, its significance, record keeping of such activities, and the challenges faced in doing so. While CSR reporting is not legally mandated in most countries, it is still compulsory in many countries. This research paper imparts the complexity of record keeping of such activities and the legalities along with it. It also analyses the significance of recording such non financial information including transparency, brand image, motivation for the employees. competition and direct contact with the society. However the report also examines the challenges faced in including such non financial information into financial foray. The study shows remarkable growth in CSR reporting in India with respect to different years. The cost incurred by the organisation in order to perform CSR activities is treated as an expense for the firm which is to be recorded in the Statement of Profit and Loss for the particular year. The Board of Directors of a company are answerable for improper utilisation of intended CSR expenditure of the company.

**keywords:** CSR, sustainability, transparency, brand image, motivation, competition, direct contact, expense, Statement of Profit and Loss.

**Introduction**

In today's world, Corporate Social Responsibility reports are prepared by thousands of organisations. As defined by Gray, Owen and Maunders (2004), CSR reporting is the process of communicating the social and environmental impacts on society and stakeholders caused by the economic activities of companies. The term CSR, first came into existence in 1953 and was

coined by an American economist “Howard Bowen” who is also known as the father of CSR.

Countries like China, United Kingdom, South Africa, Indonesia, India and many others have enacted Corporate Social Responsibility (CSR) laws so as to encourage a “quid pro quo” situation in the corporate world by portraying the relationship between a corporation and society. Although CSR reporting is voluntary, some countries mandate their organisations to prepare one. With the new amendment in **The Companies Act 2013**, India has made it a compulsion for the corporates to spend **2% of their average net profits of the last three financial years towards CSR. This is applicable only on companies with a sales of 1000 Crore/ Profit after tax of 5 Crore/ or net worth 500 Crore.**



As it can be understood from the data above CSR reporting has shown a constant rise in the corporate world. Now the question arises as to why most of the leading companies are adopting the sustainability reporting practice? Here are a few reasons that highlight the importance of CSR reporting.

### **1. Transparency**

Maintaining a CSR reports helps its direct and indirect stakeholders (all the people who have a stake/financial interest in the company) to analyse the impact of the organisation in its political,

social, legal, economical, moral environment so as to predict the future growth but it is only possible if the organisation is not altering the information about their CSR initiatives. It also helps the company in raising funds as an open report of CSR demands utmost trust from the financiers, shareholders and many more.

## **2. Brand Image**

Brand image can be defined as the perspective of the consumers of a company or a brand. It is also known as public image. Consumers these days are rational and hereby understand the importance of CSR activities adopted by different companies so much so that they even boycott companies that do not show appropriate sustainability initiatives. For example, Reliance Industries has built a strong brand image in India by contributing towards sustainable development through different programmes such as **environment protection drives, women & youth empowerment programmes, Reliance Employee Health Care Services and many more.**

## **3. Motivation for the employees**

CSR reporting gives an incentive for the employees to work more in a positive and work friendly environment.

## **4. Competition**

An honest CSR report makes the company more successful by creating loyal customers, brand image, increased sales and effective employees. Hereby, it creates a strong competition in the market to stand out from its competitors.

## **5. Engagement with the society**

CSR includes giving back to the society as it uses its resources to produce goods and services. Hence, CSR requires direct communication with the society to know their wishes and to henceforth help them. Direct communication also helps in gaining feedback on your organisation's performance from the viewpoint of the public.

This research paper includes detailed information about the growth of CSR reporting over a period of a few years, its recording in the books of accounts and challenges faced in maintaining such records. CSR reporting is the practice of reporting an organisation's performance on a non-financial basis, providing transparency on the organisation's impact on society and the environment.

## **Growth in CSR reporting**

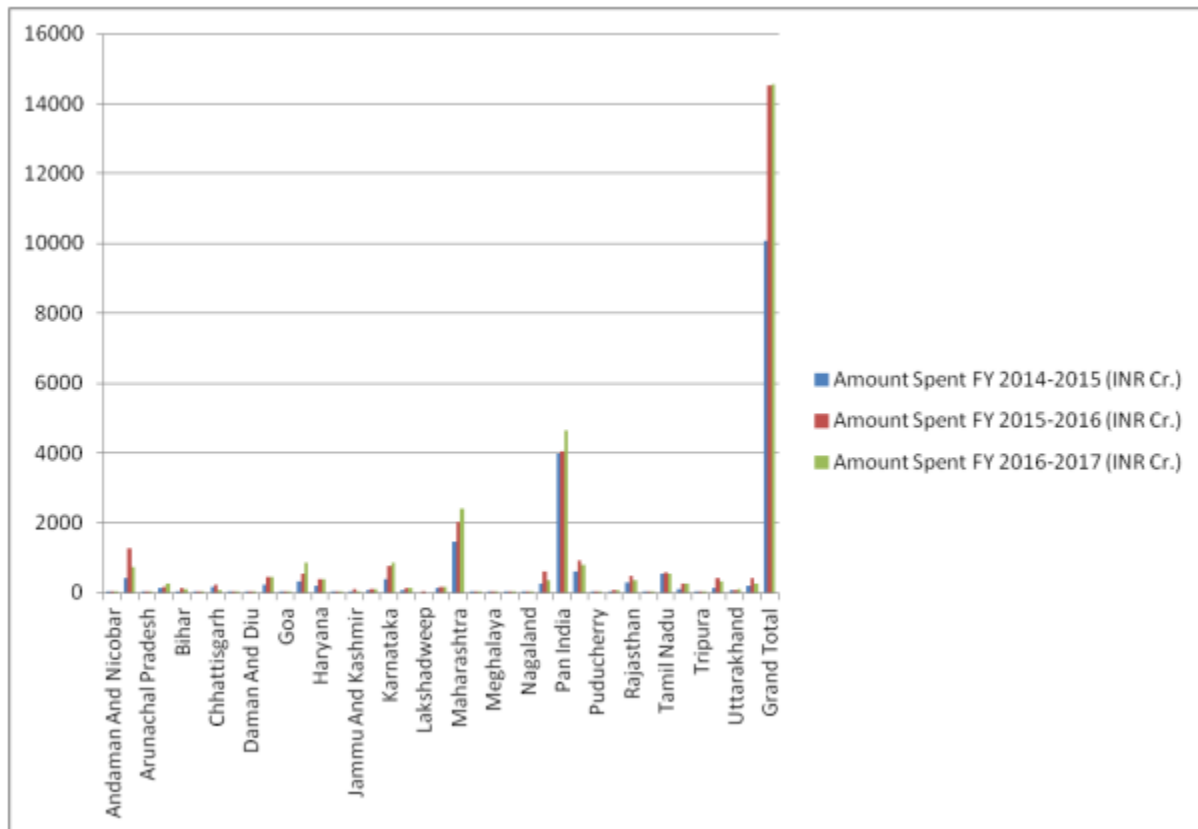
Fewer than a dozen businesses made the effort to record their interactions with stakeholders and society as recently as 1990. According to Corporateregister.com, the number of CSR reports has increased dramatically since that period, rising from 26 in 1992 to more than 3000 in 2008.

An analysis by the Governance of Accountability Institute revealed that 86% of S&P 500 index businesses produced sustainability or CSR reports in 2018, compared to less than 20% in 2011. This finding highlights the rapidly expanding field of CSR. The actual CSR expenditure FY 2015-2016 was **Rs 9,822 crore** which was **11.57 per cent** higher than that FY 2014-2015.

Detailed study of **HDFC bank** lists the CSR initiatives initiated by them FY2022 which included:

1. **9.6 billion** Indians' lives were transformed by their programme **Parivartan**.
2. Training provided to above **19.94 lakh** teachers
3. Impact was created on **2.09 crore** students all over India.
4. Constructed above **10,500** water-saving structures and installed more than **41,810** solar lights in rural India.
5. An ecological impact was made by planting more than **17.69 lakh** trees which resulted in rising groundwater levels.
6. Educated **8,470** Self-Help Groups in rural India and trained more than **8.08 lakh** women entrepreneurs with the sole intention of women empowerment.
7. Built more than **23,800** toilets, organised more than **1,810** sanitation drives, and ran more than **1.18 lakh** health camps.
8. More than **23 lakh** Financial Literacy Camps were held as part of the Financial Literacy Programme, which reached more than **1.71 crore** beneficiaries.
9. More than **9.88 million** households in **3,335** villages across **23** states received benefits from the Holistic Rural Development Programme (HRDP).

Below is the data of state wise report on CSR in India. This shows the growing CSR trend within India.



source: <https://www.csr.gov.in/content/csr/global/master/home/ExploreCsrData/mis-reports/state-wise-report.html>

### Record keeping and legalities of such Information

In India, the Corporate Social Responsibility (CSR) provisions set forth specific guidelines for businesses. Companies that meet certain requirements regarding net worth, revenue, and net profit in the prior fiscal year are subject to these provisions.

A technical guide titled “accounting for expenditure on CSR activities” was published in June 2020 by the Indian Institute of Chartered Accountants, which offers comprehensive instructions on how to recognise, measure, present, and disclose expenditure on CSR- related activities.

The cost incurred by the organisation to perform CSR activities is treated as an **expense** for the firm which is to be recorded in the **Statement of Profit and Loss** for the particular year.

The **Board of Directors must ensure** that the money that is to be spent on such activities is spent wisely on such activities only. It is advised to create an individual line item for CSR expenditure in the Statement of Profit and Loss.

According to Section 134(3) of the Companies Act, the membership of the CSR Committee must be disclosed in the Board's Report. This committee is charged with a number of duties, including creating and recommending to the Board a CSR policy. According to the areas listed in Schedule VII\*, the policy should outline the tasks the company must complete. The committee also decides how much money will be spent on CSR initiatives and routinely reviews the CSR policy.

The company's Board of Directors is essential to the implementation of CSR. They are in charge of approving the CSR policy while taking the CSR Committee's suggestions into consideration. According to Section 134(3) of the Companies (Corporate Social Responsibility Policy) Rules of 2014, the Board's Report must include a disclosure of the CSR policy's contents, and it must also be posted on the company website using the format outlined in Rule 9 of those same rules. The Board makes sure the business carries out the CSR-related tasks listed in the policy.

The Board is responsible for making sure the business spends at least 2% of its average net profits over the previous three fiscal years in order to fulfil its CSR obligations. The Board's Report must include a detailed explanation of the company's non-compliance if it does not meet this requirement.

Additionally, it is advised that businesses give local communities where their operations are based top priority when allocating their CSR budgets.

If they meet the requirements outlined in Section 135(1), holding companies, subsidiary companies, and foreign businesses with a branch office in India are also covered by the CSR provisions. A company is exempt from adhering to CSR requirements until the criteria are met, though, if it fails to meet the requirements for three consecutive fiscal years.

According to Rule 4(4), companies' CSR projects or programmes must only be carried out in India in order to qualify as CSR expenditures. Additionally, Rule 4(5) states that CSR activities will not include projects or programmes that primarily benefit the company's employees and their families.

According to Rule 6(2) of the CSR Policy, the surplus from CSR projects or programmes should not be included in the company's business profits. This guarantees that the surplus is put to good use for CSR.

In conclusion, the Companies Act mandates that businesses that meet certain financial requirements create a CSR committee, develop a CSR policy, designate a minimum budget, and oversee the policy's implementation.

The specifics of CSR activities must be disclosed in the prescribed format in the Board Report

and on the company website. It is imperative that businesses abide by these rules and seek out accurate and current information from legal experts.

**If a company violates the rules governing CSR spending, transferring, and using the unspent funds, the company will be subject to a minimum fine of Rs50,000 and a maximum fine of Rs 25 lakh.**

source <https://csr.icai.org/>

### **Challenges faced in CSR reporting**

While the growth of CSR reporting is bringing a positive change in the world, it is still an area of concern for many companies. There are several challenges faced by a number of companies in maintaining a CSR report which is a major reason for a “slow” growth in sustainability.

#### **1. Lack of Transparency**

While being an important motivating factor for CSR reporting, it is also a challenge for the companies. In order to get return in the form of increased sales, brand loyalty, public image etc, the companies need to be completely honest about their CSR initiatives. However, companies are not transparent about the same which results in unwanted situations.

We can understand this through the example of Coca-Cola regarding its failure in CSR. Coca-Cola has been blamed for Plachimada's water deficit in Kerala, southern India.

Additionally, Coca-Cola was charged with water contamination for dumping wastewater into the fields and rivers next to its facilities in the same neighbourhood. Indian public health authorities felt the need to erect signs around wells and hand pumps warning the community that the water was unsafe for human consumption since groundwater and soil were so filthy. The brand experienced a significant decline in consumer confidence and its reputation as a result of this CSR failure. Within two weeks of the 2003 CSE report's release, there was a 40% decrease in overall sales in India. The result in terms of annual sales was a 15% reduction in total sales in 2003.

#### **2. Lack of standardised metrics**

CSR initiatives adopted by companies can be different as it requires every organisation to develop their individual strategies which can be time taking and costly requiring specialists. Unlike financial reporting, there are no universally accepted standards for measuring non-financial information. This makes it difficult to compare data across companies or industries.

#### **3. Difficulty in quantifying**

As environmental, social and ethical impact cannot be quantified, it makes it difficult to record such non-financial information in a financial manner to be relevant for the stakeholders.

#### **4. Risk**

Due to the profit maximising goal of almost all companies, the management finds it very risky to invest in CSR activities because of its late returns.

#### **Result**

CSR reporting has been playing a significant role in the businesses today. It has helped many multinational companies in creating a brand image that they have at the moment, some of them including Rolex, Sony, Netflix, Microsoft and many more. Although CSR is beneficial for the businesses, it comes along with several challenges including the complexity in its record keeping. CSR being a non-financial information in the books of accounting, it is difficult to be quantified in monetary terms. The resources needed for fulfilment of CSR are only available with limited organisations while the organisations with limited resources are scared to adopt such initiatives and are devoid of its benefits.

#### **Discussion**

As businesses become more aware of the value of integrating environmental, social, and governance (ESG) variables into their operations, CSR reporting is increasing. This conversation focuses on the significance of CSR reporting, the value of maintaining records for non-financial information, and the difficulties organisations encounter during this process.

For businesses, CSR reporting is essential because it enables them to express their commitment to sustainable practices. Organisations highlight their work to address environmental issues, advance social welfare, and uphold good governance through CSR reports. Transparency in CSR reporting improves reputation, fosters stakeholder trust, and attracts socially responsible investors.

Particularly for non-financial information, record-keeping is crucial to CSR reporting. Accurate documentation of ESG indicators proves accountability, ensures transparency, and supports CSR claims. It gives businesses the ability to monitor development, gauge the success of initiatives, and cultivate stakeholder trust.

Non-financial data collection and standardisation present difficulties. To consistently capture pertinent information across the organisation, organisations need robust processes. Another difficulty is ensuring accuracy and reliability because non-financial data frequently depends on qualitative evaluations and estimates. Validation mechanisms and strict internal controls are crucial.



Companies must choose appropriate frameworks and align data in accordance with them because reporting frameworks and guidelines pose challenges. Complex data integration and management processes call for a strong IT foundation and data governance guidelines. External verification improves credibility but may result in additional costs.

To sum up, CSR reporting is important for businesses to highlight sustainable practices. For CSR to be supported, effective non-financial information record-keeping is essential. Data collection, accuracy, reporting frameworks, data integration, and data verification are among the difficulties. Overcoming these obstacles makes it possible for CSR reporting to be impactful and meaningful, which supports sustainable business practices.

### **Conclusion**

It may be concluded that the trend towards an increase in shared knowledge will persist in the future given the tendency to expand the information presented. However, it should be remembered that the quality of the information might not always be guaranteed by the quantitative data presented. In the future, widespread adoption of required CSR reporting and uniform standards may compromise the originality of shared data while promoting uniformity. Technology, social and environmental challenges, and catastrophes all contribute to the evolution of society. As a result, reporting on corporate social responsibility and the evolution of the business sector are both unavoidable. The Internet and social media have transformed social reporting while also becoming a crucial component of brand image and consumer relations. However, the need for society to observe the various global crisis, including the COVID-19 pandemic, the economic crisis, and climate change. Unavoidably, such widespread crises will have more substantial repercussions as well as implications that demand a prompt response. Although society may have larger expectations of corporations in the future, stakeholder interaction may change. These and similar disasters can also present a chance for change for the business world, which occasionally views social responsibility reporting as "image polishing" effort. In the future, there may be new paradigm shifts regarding not only the obligations of companies but also the responsibilities of society, including people, governments, and other stakeholders.

In conclusion, it is critical for businesses to keep precise records of CSR activities and to abide by the laws governing CSR in India. These procedures guarantee openness, responsibility, and successful execution of initiatives for corporate social responsibility.

Companies can show their dedication to social and environmental causes by following the rules and regulations outlined in the Companies Act and the Companies (Corporate Social Responsibility Policy) Rules, 2014.

The proper use of funds and the documentation of CSR expenses both depend heavily on record-keeping. The Statement of Profit and Loss must allocate CSR costs as separate line items in order to ensure financial reporting transparency and the ability to track the money set aside for CSR activities.

By including the CSR policy and its contents in the Board's Report and making the CSR Committee's membership public on the company website, transparency is further increased. Maintaining consistency and standardised reporting across

companies is made possible by adhering to the established formats and guidelines for disclosure.

Companies should give their local communities where they operate top priority when allocating CSR budgets. This is in line with the idea of supporting the neighbourhood and attending to its particular social, environmental, and economic needs.

It's crucial to keep up with changes to, amendments to, and interpretations of CSR provisions. It is possible to ensure compliance with legal requirements, avoid potential fines or other legal repercussions, and consult authoritative sources and legal experts.

Businesses in India can have a positive impact on society, support sustainable development, and uphold their responsibilities to the communities they serve by adopting proper record-keeping procedures, abiding by the law, and embracing the spirit of CSR.

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