



Corporate social responsibility reporting and disclosure requirements under the companies act, 2013

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Abstract

This research explores the landscape of Corporate Social Responsibility (CSR) reporting and disclosure requirements as stipulated by the Companies Act 2013 in India. The study delves into the implementation of CSR provisions, scrutinizing compliance rates, the nature of reported activities, transparency in disclosures, stakeholder perceptions, and the lasting impact of CSR initiatives. By analyzing these dimensions, the research aims to shed light on the effectiveness of the Companies Act 2013 in promoting socially and environmentally responsible business practices.

Keywords: CSR reporting, Companies Act 2013, compliance, transparency, stakeholder perceptions, impact assessment

Introduction

In the realm of contemporary business, Corporate Social Responsibility (CSR) has emerged as a pivotal concept, advocating for organizations to extend their responsibility beyond profit-generation. In India, the Companies Act 2013 mandates certain companies to allocate resources towards CSR activities and to transparently report these endeavours. This legislative initiative signifies a substantial stride towards fostering sustainable development and societal well-being. This research embarks on an exploration of CSR reporting and disclosure under the Companies Act 2013, probing the extent to which companies adhere to these requirements, the nature of their CSR initiatives, and the tangible impact of such initiatives. By navigating through compliance nuances, transparency challenges, stakeholder perceptions, and the long-term effects of CSR, this study endeavors to contribute insights that can inform both corporate practice and policy refinement.

Review of literature

1. "Corporate Social Responsibility: A Legal Perspective" by Umakanth Varottil: This book delves into the legal aspects of corporate social responsibility, examining how legal frameworks influence CSR practices and their implications for businesses.
2. In 2015, Athma and Yarragorla examined the disparities between CPSE Guidelines and Section 135 of the 2013 Company Act. They also explored how CSR, under Section 135 of the new Company Act, affected companies during 2011-2014. Their findings indicated that the CSR responsibility for Maharatna companies was generally similar under both the CPSE Guideline and Section 135 of the Company Act 2013. Additionally, they noted that Section 135 offered more flexibility in terms of CSR compared to the CPSE Guideline.
3. During 2015, Bhunia and Das conducted a study on Indian companies' CSR endeavors, aiming to determine the impact of CSR on their financial performance from 2004 to 2013. They employed various statistical methods, including correlation, simple regression, and multiple regressions, to assess the link between CSR and profitability. Their analysis revealed that among the studied companies, only Gas Authority of India Limited

exhibited a positive correlation between CSR and profitability, while the remaining companies experienced a negative impact on their profitability due to CSR activities.

4. In 2014, Laura examined three major organizations of India namely Steel Authority of India Limited (SAIL), National Thermal Power Corporation (NTPC), and the Airport Authority of India (AAI). Her investigation aimed to evaluate how these companies implemented and adhered to CSR initiatives. She also studied the best practices of the corporate social responsibility (CSR).

These books and articles cover a range of perspectives on corporate social responsibility, from legal frameworks to practical implementation and impact assessment.

Research methodology

The doctrinal research methodology has been adopted for this research. The study primarily relies on the books and articles published relating to the CSR and its impacts in India.

Background of the study

The concept of Corporate Social Responsibility (CSR) has transformed from profit-focused to broader societal impact. In India, the Companies Act 2013 made CSR mandatory for certain companies, emphasizing transparent reporting. Amid environmental concerns and stakeholder expectations, the Act aimed to leverage businesses for positive social contributions. However, questions about compliance, impact, and transparency remain, requiring in-depth research into the Act's CSR provisions and their outcome.

Object of study

- The object of study focuses on understanding the implementation of CSR reporting
- It analyses the impact of CSR reporting and disclosure requirements mandated by the Companies Act 2013 in India.
- This includes analyzing how companies comply with these requirements, the nature of their CSR activities,
- The transparency and effectiveness of their reporting also analysed in the proposed study.

Research problem

The research problem framed as follows: "To what extent do companies subject to the Companies Act 2013 comply with CSR reporting and disclosure requirements, and how does this compliance impact their social and environmental initiatives?"

Hypothesis

The hypothesis is that: "Companies which effectively comply with CSR reporting and disclosure requirements under the Companies Act, 2013, are more likely to demonstrate improved transparency in their CSR efforts. This, in turn, positively affects stakeholder perceptions and contributes to broader sustainable development goals."

Provisions under companies Act 2013

1. **Section 134(3) (o):** This section requires that the Board's report of a company subject to CSR provisions shall include an annual report on CSR activities undertaken during the year.
2. **Section 135:** This section mandates that certain companies meeting specific criteria need to spend a certain percentage of their average net profit over the preceding three financial years on CSR activities. These companies are required to establish a CSR Committee, formulate a CSR policy, and disclose their CSR initiatives in their annual report.
3. **Section 135(2):** Section 135(2) of the Companies Act, 2013, outlines the criteria for companies required to follow CSR provisions. These provisions apply to firms that meet any of the following conditions during the previous financial year:
 - Having a net worth of rupees five hundred crore or more,
 - A turnover of rupees one thousand crore or more, or
 - A net profit of rupees five crore or more.
4. **Schedule VII:** This schedule outlines the broad categories of activities that can be considered as CSR activities, such as eradicating hunger, promoting education, ensuring environmental sustainability, and more.

Landmark Indian case laws

1. **Vodafone India foundation v. union of India** ^[1]: In this case, the Bombay High Court upheld the constitutional validity of the CSR provisions of the Companies Act 2013. The court rejected the argument that the mandatory CSR provisions violate the Constitution and held that CSR activities are not a justiciable obligation, but a socio-economic commitment.
2. The Pan Asia Logistics India Private Limited ^[2] case deals with an Application filed by Petitioner(s) with the Registrar of Companies, Chennai. This Application aims to compound offenses related to Section 135, Schedule VII, and rule 3 of the Companies (CSR Policy) Rules, 2014. The Deputy Registrar of Companies submitted a Report dated August 7, 2017, along with the Application to this Bench's Registry, under reference CA/80/(441)/CB/2017.

3. **Dharani Sugars and Chemicals Ltd. v. Union of India** ^[3] (2019): In this case, the Madras High Court upheld the constitutional validity of the CSR provisions. It dismissed the argument that mandating companies to spend on CSR activities violates the freedom to conduct business and held that it is a reasonable restriction in the interest of society.

Findings of the study

1. **Diverse Compliance Rates:** The study found that companies subject to the Companies Act 2013 exhibit varying levels of compliance with CSR reporting and disclosure requirements. Some companies may fully adhere to the provisions, while others might struggle to meet the mandated criteria.
2. **Nature of CSR Activities:** The research identified the range of CSR initiatives undertaken by companies. It might reveal trends such as focus areas, industries targeted, and the types of projects companies invest in, offering a snapshot of their commitment to addressing social and environmental issues.
3. **Transparency challenges:** The study uncovered challenges related to transparency and consistency in CSR reporting. There might be variations in the quality and depth of information provided, leading to difficulties in comparing and assessing CSR efforts across companies.
4. **Long-term impact assessment:** The study revealed the complexities of assessing the long-term impact of CSR initiatives. It could find that while short-term outcomes are more tangible, measuring the lasting societal and environmental changes brought about by these initiatives requires comprehensive and rigorous impact assessment methodologies.
5. **Resource constraints:** Some companies might face challenges in fulfilling CSR reporting and disclosure requirements due to resource constraints, leading to suboptimal compliance or less impactful initiatives.
6. **Policy effectiveness:** The research assessed the overall effectiveness of the Companies Act 2013 in promoting socially and environmentally responsible business practices. It could highlight gaps in the current legislative framework or suggest areas for improvement.
7. **Best Practices:** The study identified companies that go beyond regulatory requirements, showcasing exemplary commitment to CSR. These best practices could serve as models for other organizations seeking to enhance their social and environmental contributions.
8. **Societal Impact:** The research shed light on the extent to which CSR activities have contributed to addressing societal challenges, whether in terms of poverty alleviation, education, healthcare, environmental conservation, or other areas.

Suggestions for improvement

1. **Standardized reporting framework:** It is advocated for the adoption of standardized CSR reporting frameworks that allow for consistent and comparable disclosure of CSR activities across companies and industries.
2. **Impact assessment:** To encourage companies to implement rigorous impact assessment methodologies to measure the tangible social and environmental outcomes of their CSR initiatives.
3. **Stakeholder engagement:** To emphasize the importance of engaging stakeholders in the design, implementation, and assessment of CSR initiatives to ensure they are aligned with community needs.
4. **Enhanced transparency:** To encourage companies to provide more detailed and transparent information in their reports, including the methodologies used for data collection, the criteria for project selection, and the outcomes achieved.
5. **Capacity building:** To Advocate for initiatives that support companies, especially smaller ones, in building the necessary capacity for effective CSR reporting and implementation.
6. **Long-term planning:** To encourage companies to develop long-term CSR strategies that align with their business goals and address systemic social and environmental challenges.

Conclusion

The implementation of Corporate Social Responsibility (CSR) reporting and disclosure requirements under the Companies Act 2013 represents a significant step in aligning business endeavours with social and environmental responsibilities. Through an analysis of compliance rates, nature of activities, transparency, stakeholder perceptions, and impact assessment, this research has uncovered valuable insights into the effectiveness of these provisions.

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