Chapter I

Introduction
CORPORATE SOCIAL REPORTING IN INDIA

1.1 Introduction

Social reporting is that branch of reporting, which is concerned with the functioning of social system as a whole. It may be considered as the reporting for community. The areas covered by social reporting include pollution control, community relations, product quality, plant safety, equal employment opportunity, charitable contributions, employee benefits and responsiveness to consumer complaints. Parker (1986) defines corporate social reporting as assessing the social and environmental impact of corporate activities; measuring effectiveness of corporate social and environmental programme; reporting upon a corporation’s discharging of its social and environmental responsibilities; and external and internal information systems allowing comprehensive assessment of all corporate resources and impacts - social, environmental and economic. Gray et al. (1987) are of the view that social reporting is the process of providing information designed to discharge social accountability. Typically, this act would be undertaken by the responsible organization and thus might include information in the annual report, special publications or report or even socially-oriented advertising.

Andersen and Francle (1980) described social and environmental reporting as a ‘communication’ of a corporation’s community involvement activity, human resources, environmental impact and other social activities through the annual report to the stakeholders. Devinder et al. (2007) observe that corporate social reporting is, ultimately, concerned with learning about the effect an organization has on society and about determining what corporate social responsibility the organization has within the society.

Obtaining and retaining reputation as being a socially and environmentally responsible organization is increasingly critical in gaining the trust of stakeholders and is crucial to long-term sustainability (Pruzan, 1998). Corporate social reporting is recognized as being increasingly important to sustain success. Each element of the triple-bottom-line – the economic, the social and the environment has become inter-dependent. Careful management of non-financial impact arising in the social and environmental areas of business is increasingly being recognized as critical element to sustaining financial and economic success.
1.2 Corporate Social Reporting (CSR) in India

The National Voluntary Guidelines for Social, Environmental and Economic (NVG-SEE) Responsibilities of Business were released by the Ministry of Corporate Affairs, Government of India, in July 2011. They outline the principles for responsible business actions and provide guidance for the implementation of the same. A framework, which enables business organizations to move towards responsible decision making and adopt the ‘triple bottom-line’ approach, is outlined in NVG-SEE. On 24th November 2011, the Securities and Exchange Board of India (SEBI) made it compulsory for the listed companies to report on Environmental, Social and Governance (ESG) initiatives undertaken by them through a Business Responsibility (BR) Report which would form part of a company’s annual report/ filings. As per SEBI’s directive, the business responsibility report should describe measures taken by companies covering the key principles of the ‘National Voluntary Guidelines on Social, Environment and Economic Responsibilities of Business’ framed by the Ministry of Corporate Affairs. This SEBI directive was made immediately applicable to the top 100 companies based on market capitalization and remaining companies were to be covered in a phased manner. These guidelines were formulated to encourage adoption of sustainability reporting and mainstream disclosure on environmental, social and governance metrics in India (www.mca.gov.in/ministry/latestnews/national_voluntary_Guidelines_2011_12jul2011.pdf).

As per Section 135 of Companies Act 2013, effective from 1st April 2014, every company, private or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs five crore, needs to spend at least two per cent of average net profit of the immediately preceding three financial years, on Corporate Social Responsibility activities. While deciding if a company has to spend on Corporate Social Responsibility, profit from foreign branches and dividend received from other companies in India will be excluded from the net profit criteria. The Corporate Social Responsibility activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act (Business Standard, August 15, 2013).

To formulate and monitor the Corporate Social Responsibility policy of a company, a Corporate Social Responsibility Committee of the Board needs to be
constituted. Section 135 of the 2013 Act requires the Corporate Social Responsibility Committee to consist of at least three directors, including an independent director. However, Corporate Social Responsibility Rules exempt unlisted public companies and private companies that are not required to appoint an independent director from having an independent director as a part of their Corporate Social Responsibility Committee and stipulates that the Committee for a private company and a foreign company needs to have a minimum of two members. The report of the Board of Directors attached to the financial statements of the Company would also need to include an annual report on the Corporate Social Responsibility activities of the company in the format prescribed in the Corporate Social Responsibility Rules, setting out inter alia, a brief outline of the Corporate Social Responsibility policy, the composition of the Corporate Social Responsibility Committee, the average net profit for the last three financial years and the prescribed Corporate Social Responsibility expenditure. If the company has been unable to spend the minimum required on its Corporate Social Responsibility initiatives, the reasons for not doing so are to be specified in the Board Report (Business Standard, August 15, 2013).

1.3 Statement of the Problem

Annual report of a company usually includes the Chairman’s Report, Directors’ Report, financial statements and Auditors’ report, as well as relevant notes to the accounts. Reporting of the social activities of the company should always be in the form of a social report, included in the annual report. Eric W.K. Tsang (1998) found a steady increase in social disclosure during the late 1980s and a stable level of disclosure since 1993 in Singapore. Azlina Rahim et al. (2003) came to the conclusion that the companies had made a disclosure of information on Occupational Safety and Health in Malaysia almost in all aspects, where workplace safety and health management are the most popular aspects of Occupational Safety and Health that have been disclosed. Alex Douglas et al. (2004) revealed considerable discrepancies in corporate social reporting, both in terms of whether the financial institutions disclosed social information at all and, if they did, the means used to disclose it. It was clear from their study that there was a very little corporate social reporting found in the annual reports of all the Irish financial institutions. Therefore, it becomes imperative to understand how do the Indian companies go about in reporting the social activities, item-wise? Does reporting differ across companies
classified on the basis of industry, ownership, size, nationality and age? Which section of annual report is widely used to reflect upon the fulfilment of social responsibility? What is the extent of reporting across different sections of an annual report? How many words the companies have used for reporting, in the annual reports? How do the companies rank in terms of social reporting?

Spicer (1978) concluded that companies with better pollution control records tended to have higher profitability, larger size, lower total risk, lower systematic risk and higher price-earnings ratios than companies with poorer pollution control records. Trotman and Bradley (1981) found that average companies that provided social responsibility information were larger in size, had a higher systematic risk and placed stronger emphasis on the long-term than companies that did not provide social responsibility information. Singh and Ahuja (1983) found that the type of industry was highly related to corporate social disclosure with manufacturing companies making more corporate social disclosure than services companies. Porwal and Sharma (1991) revealed that about 46 per cent of the companies in India made some disclosure in their annual reports. The disclosure had been made mainly through the director’s reports and notes/schedules in financial statements. The target companies in both the public and the private sectors disclosed more information than the smaller ones. Carmelo Reverte (2008) found that neither profitability nor leverage seemed to explain differences in CSR disclosure practices among Spanish-listed firms. However, Khaled Hussainey, et al. (2011) concluded that profitability was a key driver for Egyptian-listed companies to disclose corporate social responsibility information. In this context, it becomes essential to know, what are the variables that are associated with corporate social reporting? What are the determinants of corporate social reporting? Are there differences in the variables associated with social reporting, across different groups of companies?

The aim of corporate social reporting should be to disclose information that benefits the investors and the society at large. Therefore, the companies must decide at the outset, which investors they are targeting, find out what do they think, and what do they want. The usefulness of information for making decisions should be the key in deciding what is to be reported and how that reporting should be done. Investors may demand more information on the fulfilment of corporate social responsibility by
companies so that they can take effective portfolio decisions. In this backdrop, it is necessary to know, what do the investors think about corporate social reporting? What are the variables that influence the level of perception of investors on corporate social reporting?

In order to find solutions to the questions raised, the present study has been undertaken.

1.4 Objectives

Accordingly, the following objectives have been framed:

i. To examine the level of corporate social reporting

ii. To find out the determinants of corporate social reporting

iii. To ascertain investor perception on corporate social reporting

1.5 Methodology

The study has made use of both primary and secondary data. Primary data relating to investor perception on corporate social reporting have been obtained by administering a structured questionnaire. Secondary data have been collected from the annual reports of the sample companies.

1.6 Sample

Convenience sampling procedure has been followed to identify 300 investors in order to obtain their views on corporate social reporting. Top 100 companies, listed in BSE-200 have been selected, based on their market capitalization value.

1.7 Period of Study

As far as annual report-based data are concerned, a five year period from 2007-08 to 2011-12 is considered. Primary data have been collected during the period January – December 2012.

1.8 Framework of Analysis

Data collected have been analysed making use of statistical tools which include (i) Correlation, (ii) Multiple Regression, (iii) Step-wise Regression, (iv) Friedman’s Rank Test, (v) ANOVA, (vi) Chi-square test, (vii) Mean, (viii) Median, (ix) Standard deviation, (x) Quartile deviation and (xi) Content Analysis. Growth rate has also been used in this study.
1.9 Significance of the Study

The parties, who may stand to gain from the findings of the present study, may be (i) the Government, (ii) Securities and Exchange Board of India (SEBI), (iii) Companies, (iv) Investors and other associated parties.

The findings of the present study will help the government understand the present practices of companies regarding corporate social reporting. Ministry of Corporate Affairs may be able to enact legislations to improve the reporting of corporate social responsibility-related information. The Securities and Exchange Board of India (SEBI) will be in a position to take steps to constitute a committee for setting standards for corporate social reporting. Accounting bodies and relevant governmental agencies may stand benefitted as they will be able to develop an accounting practice which would accommodate social aspects of the performance of companies.

Currently, the companies are likely to adopt policies and standards that best accommodate the interests of the company, with the minimum cost involved. Companies will be able to know where do they stand as far as corporate social reporting is concerned and how best they can improve their reporting. In general, ethical reporting should seek to analyse a company’s behavior and its response and attitude to its stakeholders. Ethical reporting allows investors to evaluate corporate activity on more than just commercial or economic criteria. The outcome of the study will undoubtedly be of great help to the investors to assist in evaluating the extent of social disclosure by Indian firms and accordingly structure their portfolio to include such companies that are really concerned about the society. Further, they would be able to closely monitor their investment.

1.10 Limitations of the Study

In order to perform content analysis, only annual reports of the companies have been used though there are other sources through which information on corporate social responsibility-related information may be revealed. Such sources are not considered in the present study. Investors residing in Coimbatore district alone have been included. In view of these limitations, it is advisable to exercise utmost caution in making an attempt to generalize the findings.
1.11 Chapter Scheme

The report of the study is presented in seven chapters.

In Chapter II, the results of previous studies on corporate social reporting are summarized. The studies reviewed include both Indian and Foreign.

Chapter III explains the research methodology followed for carrying out the study. Sources of data, method of sample selection and tools of analysis used are explained in this chapter.

Corporate social reporting practice of the companies forms the theme of Chapter IV. Place of reporting, section-wise and item-wise reporting are brought out in this chapter. Content analysis has been used to examine the reporting of social activities by the companies.

Chapter V brings out the determinants of corporate social reporting. Correlation, multiple regression and step-wise regression have been used to find out the variables that influence the reporting of social activities.

In Chapter VI, an attempt is made to ascertain the investor perception on corporate social reporting. Friedman’s Rank test, ANOVA and Chi-square test have been used to ascertain the variables that are associated with the level of perception on corporate social reporting.

The last chapter summarizes the findings of the study. Suggestions for improvement of corporate social reporting are also included here.
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