Chapter 1

Introduction to Corporate Social Responsibility

1.1 Social Reporting: An Introduction

Business reporting can be defined as “Communication of Published financial statements & related information from a business enterprise to third parties including shareholder, creditors, customers, government authorities and public”. In general, it aims at dissemination of information to various stakeholders of the organization. Therefore, reporting is structured as follows.

Figure 1.1: Classification of Reporting
1.1.1 Financial Reporting

"It is an art of recording, classifying and summarising in a significant manner and in terms of money transactions and events which are in part at least of financial character and interpreting the results thereof"; and in 1966 AAA recognised that accounting is also explained as the "process of identifying, measuring and communicating economic information to permit informed judgement and decisions by the users of information."

1.1.2 Management Discussion Analysis (MDA)

It is a section of a company's annual report, in which management discusses numerous aspects of the company, both past and present. Among other things, the MDA provides an overview of the previous year of operations and how the company fared in that time period. Management will usually also touch on the upcoming year, outlining future goals and approaches to new projects.

The MDA is a very important section of an annual report, especially for those analyzing the fundamentals, which include management and management style. Although this section contains useful information, investors should keep in mind that the section is unaudited. MDA basically, reflects the organizational ideology which directs the company in order to achieve the objectives it also reflects the internal cultural values which govern the functioning of the company.

1.1.3 Social Reporting

A business unit is a part & parcel of the society. Its activities very vitally affect the society and its members. The goods & services it
produces and sells and the fact that the business provides the employment for a sizable section of the society makes the business a vital section of the society. Moreover, the business draws the benefits from the society in various forms. A business organisation would succeed only in a developed society. The society provides infra-structure and the facilities without which business cannot operate at all. Hence, in order to evolve social reporting, social accounting assumes importance in this respect.

Social accounting refers to as “the process of selecting firm level social performance variable, measures and measurement procedures systematically developing information useful for evaluating firm’s social performance & communicating such information to concerned social groups both within & outside the firm. According to Ralph Estes, “Social accounting is the measurement & reporting, internal or external of information concerning the impact of an entity and its activity to the society”.

Traditionally, the annual financial statement average being prepared to exhibit the actual Position of the financial performance of the enterprise. But now it was felt that reporting merely on the financial performance is not enough. Every enterprise has a social responsibility and in recent years business enterprise have been compelled to recognize their economic as well as social responsibilities. The traditional way of measuring the performance derived from income statement and balance sheet fails to do so. As such some additional reporting in any form becomes necessary which may analyze the “give and take” position of the enterprise “to & from” the society in which it carries on its operation.

Social Accounting is the dimension of the art or science of accounting in the field of the “Socio-economic” analysis. It is an
assessment of reporting on some meaningful domain of business enterprise that has social impact.

Social accounting is an independent discipline which is to measure and report the activities of an entity in so far as they affect the society.

American Accounting Association Committee on Accounting for social performance has suggested a board description, which include:-

(a) Accounting for and evaluating of impact of corporate social responsibility programmes.
(b) H R A. – Human resource Accounting.
(c) Measurement of selected social cost.
(d) Measuring the full impact of an entity on society.
(e) Social Reporting.
(f) Accounting for public programmes.

1.2 Corporate Social Responsibility (CSR): The Concept & Meaning

The voluntary compliance of social and ecological responsibility of companies is called Corporate Social Responsibility (CSR). Corporate social responsibility is basically a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. Corporate social responsibility is represented by the contributions undertaken by companies to society through its business activities and its social investment. This is also to connect the Concept of sustainable development to the company’s level. Over the last years an increasing number of companies worldwide started promoting their Corporate Social Responsibility strategies
because the customers, the public and the investors expect them to act sustainable as well as responsible. In most cases CSR is a result of a variety of social, environmental and economic pressures.

UNCTAD (2004) defines CSR as constituting actions where organization integrate societal concerns into their business policies & operation including environmental, economy & social concerns.

The world Business Council for Sustainable Development in its publication “Making Good Business Sense” by Lord Holme & Richard Watts, used the following definition: “Corporate Social Responsibility is the continuing commitment by business to behave ethically & contribute to economic development while improving the quality of life of the workforce & their families as well as of the local community & society at large”.

The same report gave some evidence of the different perceptions of what this should mean from a number of different societies across the world. Definitions like “CSR is about capacity building for sustainable livelihoods. It respects cultural differences & finds the business opportunities in building the skills of employees, the community & the government” is from Ghana, while as “CSR is about business giving back to society” is from the Phillipines.

In the United States the term CSR has been described with a tinge of Philanthropy. There, besides paying taxes, companies donates a certain share of profits to charitable causes – an act of giving as a reciprocity for receiving something.

The European Model is much more focused towards CSR as follows:
1. Social Responsibility is integral part of the wealth creation process – which if managed properly should enhance the competitiveness of business & maximize the value of wealth creation to society.

2. When times get hard, there is the incentive to practice CSR more & better – if it is a philanthropic exercise, which is peripheral to the main business, it will always be the first thing to go when push comes to shove.

There cannot be any rigidity in the outlook in regard to its definition. In different countries, there could be different parameters, values & priorities. The companies generally consider this aspect in the background of their core business activities operating their businesses in a way that meet (or exceed) the ethical, legal commercial & public expectations that the society has from the business.

The European Commission gave more comprehensive definition of this concept. According to the commission, it is “A concept whereby companies decide voluntarily to contribute to a better society & a cleaner environment. A concept whereby companies integrate social & Environmental concerns in their business operations & in their interaction with their stakeholders on a voluntary basis”.

The Term “Corporate Social Responsibility” is imprecise and its application differs. CSR can not only refer to the compliance of human right standards, labor and social security arrangements, but also to the fight against climate change, sustainable management of natural resources and consumer protection. The concept of Corporate Social Responsibility was first mentioned 1953 in the publication ‘Social Responsibilities of the Businessman’ by William
J. Bowen. However, the term CSR became only popular in the 1990s, when the German Betapharm, a generic pharmaceutical company decided to implement CSR. The generic market is characterized by an interchangeability of products. In 1997 a halt in sales growth led the company to the realization that in the generic drugs market companies could not differentiate on price or quality. This was the prelude for the company to adopt CSR as an expression of the company's values and as a part of its corporate strategies. By using strategic and social commitment for families with chronically ill children, Betapharm took a strategic advantage.

1.3 Status of CSR in India

India has been a pioneer in the field of CSR. J.R.D. Tata, who has been instrumental in conducting the first social audit in India & perhaps in the world once remarked:

“While profit motive no doubt provides main spark for any economic activity, any enterprise which is not motivated by consideration of urgent services to the community becomes outmoded soon & cannot fulfil its real role in modern society”.

Besides Tata Group, the other companies which have adopted & followed the CSR in India are: BHEL, Wipro, Bajaj Auto Ltd., L&T, Sriram investments, Otis Elevator Co. India, ACC, Asian Paints, Brook Bond, Colgate Palmolive, Escorts, SAIL, ITC, etc. The contribution of these companies towards CSR encompasses various initiatives like starting social trusts, anti-pollution measures, adopting villages, family planning clinics, Training Unemployed youth, & community development activities, etc. Further, they conduct social audits on voluntary basis, provide medical, recreational facilities, develop sports, undertake consumer
education campaigns, avoiding unethical & deceptive advertising & so on. Azim Premji, Chairman of Wipro, has created enormous trust for facilitating primary & elementary education in India.

There have been dissenting views too concerning CSR in India. Reliance Group, founded by Dhirubhai Ambani, propounds the other school of thought, which is opposed to CSR as such. “As an industrialist my job is” declared Dhirubhai, “to produce goods to satisfy the demand. Let us be clear about it. Everyone has to do his job. My commitment is to produce at the cheapest price & the best quality. If you dabble in everything then you make a mess of things. If we cannot take care of our shareholders & employees & start worrying about the world, then that is hypocrisy”.

(Much water has flown down the Ganges since the above statement was made. Reliance Group of Companies presently are not oblivious to their social responsibilities.)

The fact, however, remains that still there was quite a few companies who consider such obligations as burdensome.

However, India traditionally has cherished philanthropic values since times immemorial. Kabir, in one of his couplets prayed to God to give him so much that he could feed himself & a guest! In the past whenever people of the country were under the social or natural problems, leading businessmen have literally thrown open their treasure chest to provide the required assistance & help to the needy. Gandhiji reminded us these values, when he propounded the theory of trusteeship. As a sequel to that, more & more companies are now realizing that they can no more function or be judge solely on the basis of their think bottom – lines & fulfilling their
economic objectives only. A positive impact on employees, customers & community at large has assumed an equal or greater significance in the overall success of the companies & building their brand image. This realization has made them undertake socially responsive actions, which are also strongly propounded by the vedic philosophy.

1.4 Need for the study

With the interest & action across business organizations in the social development & increasing contribution to social cause, at the same time, increasing pressure from social organizations, NGOs, and the government, there is a greater need for systematized social reporting. There are four areas identified by National Association of Accountants (NAA).

1. Community Development

This includes society –oriented activities that are primarily of benefit to general public. Viz:- General Corporate Philanthropy, community, housing, financing of health services and voluntary activities food programmes, rural development programmes.

2. Physical Resources and Environmental contribution

Activities directed towards abatement of pollution (noise, air and water) and other policies preventing environmental deterioration, conservation of scare resources, proper and judicial use of non renewable resources, disposal of waste etc. are inclusive in this area.

3. Human Resources Development
It includes social performances directed towards the well being of employees like improvement of employment practices, training working condition, promotion, policies, provision for job enrichment schemes, recruitment, of SC/ST other under-privileged minorities and employee related performance.

4. **Product or service contribution**

It is the marketing segment of the business environment. It includes areas like consumerism, product quality, packaging, advertising, warranty, provision service guarantee, product safety etc.

Also, the Committee on Accounting for Corporate social performance (CSP) has given the same areas for considering social performance.

1. Community involvement includes: (a) General Philanthropy,(b) Public and private transportation, (c) Health Services, (d) Housing, (e) Personal and Business Problems, (f) Community Planning and Improvement, (g) volunteer activities,(h) Specialised food Programme, and (i) Education.

2. Human Resources includes: (a) Employment practices, (b) Training Programme, (c ) Promotion Policies, (d) Employment Continuity , (e) Remuneration (f) Working condition, (g) Drugs and Alcohol, (h) Job enrichment, and (i) communication.

3. Physical resources and environmental contribution include air, water, sound, solid waste use of scarce resources and esthetics.

4. Product or service contribution includes Completeness and
clarity of labeling, packaging and marketing representation, Warranty Provisions, Responsiveness to consumer complaints, consumer education, product quality, product safety, contents and frequency of advertising and constructive research.

There have been various areas mentioned, but there is no standardized reporting framework which objectively states the social happening in the organizations. It is not possible for any reader or user of social information how best a company is contributing to the society, at what rate a company is measuring its social expenditure, etc. Therefore, there is a great need to develop such a framework which objectively explains about social activities & expenditure.

1.5 Factors encouraging Social Reporting Practices

1. Build up good image for the company
   Social Reporting creates an image in the mind of its stakeholder or users of the information regarding a corporate being understanding their responsibility towards society & working towards it. This helps them to build up a good image regarding the corporates.

2. Affect the share prices
   On the basis of information shared by the corporate regarding their social activities the user of information or the stakeholder confidence rises in the company. Due to which the share prices of the company is being affected to some extend in a positive manner or negative manner depending upon the type and amount of activities.
3. **Increase the confidence of consumer in the company**

   Due to social reporting practices started by many corporate consumer starts realizing that the company is understand it social responsibilities & is working towards it. These boost the confidence of the consumer to great extend.

4. **Help in getting the financial support**

   Apart from getting the above benefit a corporate get good financial support due to its continuous social reporting since many finance lending company judge the corporate authenticity by their behaviour apart from their business activity.

5. **Fulfilling the social & legal obligation**

   As the corporate get benefit from society it is the responsibility of the corporates to revert those benefits in other form to society. By way of social reporting the corporate are fulfilling their social & legal obligations.

1.6 **Evolution of the Concept**

   Over a period of time various approaches developed the concept of corporate social responsibility. They are:

   (a) Resources optimisation to improve profits,
   (b) The maximisation of the profits, and
   (c) To view profit as a means to an end. Accordingly better values, lower price, greater capital appreciation are also to be given importance.

   The change from the second to the third approach to the social responsibility is characterised as a move from the concept of
business corporation based on shareholder's interest to one which extends to definition of stake holder. This concept recognises that the business enterprise is responsible to all stake holders, i.e. those who stand to gain or lose on account of the activities of the firm.

Serious concern began to develop for Corporate Social Accounting (CSA) in early 1970s. The advocates began to develop the information and report on the following issues:

1. Effects of various corporate social programmes,
2. Corporate performance in hiring and promoting minorities and women,
3. Corporate generated pollution and pollution control effects,
4. Illegal campaign contribution,
5. Energy usage and conservation efforts, and
6. Consumer issues.

1.7 Objectives, Concepts & Measurement of Social Accounting

According to the Report of the study group on the Objectives of the financial statements, (American Institute of Certified Public Accountants)

"An objective of the financial statement is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its Social environment."

A National Association of Accountants appointed a Committee on Accounting for Corporate social performance (CSP)." The report
prescribes as follows:

(a) Identify and classify areas of Corporate Social Impact which may be measured. This will require additions and deletions as social values change.

(b) Develop an objective system of measurement which may be used in assessing corporate social impact. Such system may be numeric in monetary or non-monetary terms or descriptive.

(c) Through empirical research, test the categories of social impact and the feasibility and practicality of various measurement systems.

(d) Revise and refine the categories of social impact and systems of measurement as indicated by the empirical research.

(e) Maintain liaison with other professional and public bodies interested in the subject.

Social performance of corporations is of increasing concern to management, investors and the general public but this performance is not measured and reported in a systematic manner. An important prerequisite for orderly measuring and reporting of social performance is the proper identification of objectives. This will assist management in turn in establishing goal, objectives and priorities, in planning the use of monetary physical and human resources and in measuring progress. As stated in preceding para
Ramanathan (1976) tried to develop a theoretical framework for CSA. He gave three objectives of Corporate Social Accounting:

1. To identify and measure the periodic net social contribution of an individual firm consisting of cost and benefits internalised to the firm and externalities affecting different social segments.

2. To help determine whether individual firm's strategies and practices which directly affect the relative resource and power stats of individuals, communities social segments, generations consistent with widely shared social priorities on the one hand and individual's legitimate aspirations on the order.

3. To provide the optimal information to all the constituents of the society to the social resource where optimality implies a cost/benefit -effective reporting strategy which also optimally balances potential information conflicts among the various social constituents of a firm.

Clark c. Abt (1977) attempted for a comprehensive social Audit. In his attempt to explain the CSA he states that for efficient design of instruments and procedures used to measure corporate social responsibility by social audits and by other means as well - the measurement must be: Useful as a guide to decisions employees (to do certain things or not to do them), by employees (to accept or reject the job), by consumes (to buy or not to buy products), by owners (to buy or sell the stock) by reformers (to attack or defend the company), by legislature (to pass or not to pass legislation to control the company or possibly even to eliminate some controls).
For this purpose the measures should be objective, reliable, repeatable, widely accepted, responsive of the available potential, effective in institutionalising social concerns, transparent in their assumptions and estimates. This explains very precisely the constituents affected by reporting and the purpose served by such reporting. In this connection Ramanathan (1976) has given the following six social concepts:

1. **Social Transaction**
   This represents firm's utilization or delivery of a socio-environmental resource which affects the absolute or relative interests of the firm's various social constituents and which is not processed through the market place.

2. **Social Overheads**
   This represents the sacrifice to the society from those resources consumed (added) by a firm as a result of its social transactions. In other words, social overheads are the measured value of a firm's negative externalities and social returns is the measured value of its positive externalities.

3. **Social Income**
   This represents the periodic net social contributions of the firm. it is computed as the algebraic sum of firm's traditionally measured net income, its aggregate social overheads and its aggregate social returns.

4. **Social constituents**
   They are different distinct social groups with whom a firm is presumed to have a social contract. formal recognition of social
constituents in the accounting system is facilitated through social equity accounts.

5. Social Equity
   This is a measure of the aggregate changes in the claims which each social constituent is presumed to have in the film.

6. Net social Asset of a firm
   It is a measure of its aggregate non-market contribution to the society’s well-being less its non-market depletion of the society's resources during the life of the firm.

1.8 Users of Social Information

According to Estes(1976) the users of the information may be external or internal. The internal users may be - Directors, management, other employees, public relation department and law department.

Figure 1.2: Internal Users of the information
Amongst the external users there may be investors, customers, suppliers, Government, public interest groups and others

**Figure 1.3: External Users of the information**

Internal Social Accounting ranges from simple and inexpensive to the involved complicated and costly sort of activity. The main objective of the internal social accounting seems to be simply to find out what the company is actually doing, indicating that corporate Social activities. The utility of the model for internal
purposes is related with the complexity of the model. External social reporting appears primarily in annual report but a significant number of companies use a separate social report. Higher the complexity higher the utility. Externally all the models are useful in the varying degree.

1.9 Reporting Framework

• Narrative disclosure

This is given by way of footnotes to financial statement of information concerning environmental problems and efforts. This will include identification of environmental problems, abetment, goals of the organization, progress of the organization, and disclosure of the material environmental effects on financial position, earnings and business activities of the organization.

• Accounts Related with Environmental Matters

Beams suggested extension of traditional financial statements to include certain accounts related to environmental matters. The essential differences between these and ordinary financial statements are: (1) certain expenses otherwise reflected in a variety of cost accounts are collected in the account industrial Site maintenance, (2) deterioration of the industrial site is reflected in the reduction in the book –value of the land and in new expense industrial site deterioration and retained earnings may be charged for previously unrecognized site deterioration.

• Marlin’s Pollution Report

Marlin proposed two approaches to reporting on a company’s pollution. One report would compare the company’s control with
state of the art standards that Marlin would have established jointly by an industry committee and the AICPA's committee's environmental accounting and social measurement.

The second report to accompany the first report presents actual pollution emissions figures along with certain relevant federal standards. This approach is commendable in four important respects. It focuses on measures that are not hypothetical but are actually being made today; it calls for reporting of standards that because of the way in which they would be established should have some degree of general acceptance, it its flexible enough to allow for recognition of changing social concern and the reporting firm's independent CPA would attest to information disclosed.

- **Dilley and Wey Gandt's Social Responsibility Annual Report**

  The founder of this approach used gas and electricity utility company to illustrate their proposed approach. In their approach termed as ‘Social responsibility Annual report they gave various reports for presenting the information. Statement (1) is an analog to the independent auditor's opinion on financial statement presuming that ‘Social audit’ is performed not by the reporting company but by some independent third party. Statement 2) describes company covering information like type of company, operating revenues, number of employees, age of the company, average salary of employees, community ownership; etc. Statement (3) gives details about the community like area, population, minority, location, earning level of population, etc. Statements (4) and (5) presents report on air pollution, thermal pollution and water consumption. The next statement presents
information on average number of employees, total hours worked, work days lost due to on-the-job injuries and occupational illness. Statement (7) gives details regarding total population, percentage of minority employees, employees of particular community, female employees, etc. The last statement presents the funds expended on pollution control and environmental protection, charitable contributions and certain employee fringe benefits.

The information available under this method is useful to the public but could also be obtained at little effort or expense. It provides a fair degree of quantification and some basis for evaluation. Inspite of above advantages as the information is divided into number of reports and as there is no integration it is very difficult to draw a concerns differ hence different reports are required. Even though eight reports are prepared the approach does not give the result in monetary terms for social costs and social benefits.

- **Corcoran and Leininger’s Environmental Exchange Reports**

  The report presents details in two parts: input and output. In the input part details are given regarding human resources and physical resources. The human resource part gives details regarding. Since how long, how many number of employees are with the company, what is their education level, what is the age group, etc. and amongst the physical resources how much quantity of direct material is bought by whom? etc. On the output side information is given regarding human resources, physical resources and financial resources.

  The Corcoran and Leininger construct is fairly simple to prepare although some additional cost would be incurred to routinely
provide data on physical quantities. The report would be easy to understand but it might be difficult to evaluate because of the absence of standards or reference values. A fair degree of comprehensiveness is possible but certain information pertaining to present social concern is omitted from the model.

1.10 International Reporting

International reporting frameworks, given the wide differences between industries and individual companies, the content of economic, environmental and social reports is bound to vary. Several international initiatives have emerged to provide harmonized reporting guidelines, with a view to developing a common yardstick for voluntary reporting of the economic, environmental and social impacts of company activity. In this context, ICC considers that the development of global, flexible and voluntary reference criteria for economic, environmental and social reporting can help companies focus on key issues when producing reports.

An example is the work of the Global Reporting Initiative (GRI) on a global set of common core indicators. The GRI guidelines are for voluntary use by companies for reporting on the economic, environmental and social dimensions of their activities, products and services. The elaboration of these guidelines incorporates the participation of representatives of business, accountancy, investment, environmental, human rights, research and labour organizations from around the world.

The United Nations Conference on Trade and Development (UNCTAD), through its Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
(ISAR) has also developed best practices on reporting for environmental costs and liabilities to help companies integrate environmental reporting into their financial reports, followed more recently by detailed guidance on the estimation and use of eco-efficiency indicators. ISAR's current work has been focused on the social component of corporate responsibility reporting. Reporting was also one of the key topics addressed by the European Union (EU) Multi-Stakeholder Forum on Corporate Social Responsibility.

ICC considers that these initiatives and other voluntary reporting guidelines, offer useful guidance to companies on what to report and how. Such initiatives are especially valuable in having developed their guidelines through a multi-stakeholder process. For these reasons, ICC is of the view that a multi-stakeholder approach to the development of voluntary reporting frameworks can make a positive contribution to gaining a better understanding of these issues, and that companies should be encouraged to participate in such processes.

However, there is growing concern among world business over the possibility that one or more of these frameworks might become the basis for mandatory reporting guidelines. Transforming a global, flexible and voluntary reference tool into a mandatory framework would remove nearly all of the advantages that made such guidelines attractive to companies in the first place. It would also certainly create great difficulties, especially for small and medium-size companies, to cope with such a detailed framework.

The question still remains that what should be the easy understandable reporting framework which would make the objective of social reporting fulfilled.