CHAPTER-7

Problems in Social Reporting
BHEL & IOC
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PROBLEMS IN SOCIAL REPORTING
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- PROBLEMS IN SOCIAL ACCOUNTING AND REPORTING

➢ No statutory requirement.
➢ Non-availability of standard guidelines.
➢ Paucity of experts in the area
➢ Problems in defining social goals
➢ Difficulty in quantification of social costs and benefits.
➢ Erosion of profitability.
➢ Social welfare not the objectives of private units.
➢ Less trained managers
➢ Problem of multiplicity of objectives.
➢ Social Accounting a fair-weather concept
➢ Fear of losing market
➢ Problem of choice of model
➢ Inadequate reporting
➢ Less trained Accountants
- Cost of environmental damages not identifiable.

- PROBLEMS IN APPLYING ACCOUNTING CONVENTIONS.

- PROBLEMS IN SOCIAL REPORTING OF BHEL.

- PROBLEMS IN SOCIAL REPORTING OF IOC.
PROBLEMS IN SOCIAL REPORTING

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In India social accounting and reporting is in infancy stage and it has yet to get momentum and maturity. On the other hand, in several advanced countries of the world, it is quite popular and majority of companies publish their social accounts along with the annual reports of financial statements. The academicians and accounting associations of the country should come forward for developing and advancement of social accounting and reporting procedures so that companies may adopt it without much difficulty. Further, it is the demand of the situation that it should be made legally compulsory for the prescribed companies to publish their social income statements and social balance sheets on a prescribed proforma, along with the annual reports financial statements. Thus, no company would be in a position to ignore its social responsibilities in this respect.

In its development phase, the first obstacle faced by corporate social accounting was the absence of clear definition, concepts and objectives of the subject. This was also coupled with the problem of measurement and analysis for the cost effectiveness.
There is also an apparent inability to make creditable cost benefit and cost effectiveness analysis to guide decision makers. 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 pre-requisite for orderly measuring and reporting of social performance is the proper identification of objectives, concepts, areas and ways of measurement of social activities.

For the sake of convenience, this chapter has been divided into four sections :-

A. Problems in social accounting and reporting.

B. Problems in applying accounting connections.

C. Problems in social reporting of BHEL.

D. Problems in social reporting of IOC.

Let us discuss these issues and problems, one by one :

A. PROBLEMS IN SOCIAL ACCOUNTING AND REPORTING 1: Social accounting is of recent origin and a new area of accounting. Though Adam Smith talked about social responsibility of business in 1776, but its accounting and reporting became popular as in seventies of this century. With a view to

1. Dr. G.L. Dave, Social Accounting, Renuka Publishers, p.143-146
fulfill social responsibilities, it is quite necessary that the companies should report and present their social accounts to the various stakeholders, in appropriate manner. However, various social activities are of qualitative nature, therefore, it is not easier to quantify them entirely. Thus, in actual practice, companies specially in India, face various problems related to social accounting and reporting. Some of the notable points have been described below:

1. **No Statutory Requirement**: In India, there is no statutory requirement for the companies to disclose information regarding social performances. The Companies Act, 1956 does not require a very detailed disclosure of corporate social responsibility information in the annual reports. Many companies feel that it is wastage of time. Through the amendment of 1988, it has been made compulsory to disclose only information about energy conservation, foreign exchange earnings and pollution control measures, but about other social items companies act is silent. Hence, it has been left to the sweet will of the companies to report social items and performances or not.

2. **Non - Availability of Standard Guidelines**: The companies
face problems due to non-availability of standard guidelines for the preparation of social statements. Though, various models are available to them, yet not a single model is complete in all respects and is free from limitations.

3. **Paucity of Experts in the Area:** Next question arises as to who should prepare these social statements and who should audit it. As the variables are to be identified, measured and reported, preparation of social accounts turns out to be interdisciplinary. Hence, they cannot be prepared by accountants and chartered accountants. We find the paucity of experts in preparation of the accounts.

4. **Problems in Defining Social Goals:** It is not easy to define and identify the social goals in specific term. Until the goals are defined and identified properly, the statement cannot be prepared accurately. There are numbers of companies operating in such areas which cannot easily differentiate between financial goals and social goals even if they try, quantification of social activities and goals evade any solution.

5. **Difficulty in Quantification of Social Costs and Benefits:** The measurement of social costs and benefits poses another problem before the companies. There is subjectivity involved
in quantifying the social benefits and social costs. Due to these reasons social accounts, if prepared, do not remain authentic. If correct measurement is not possible, then results would also not be correct and they would be far away from realities.

6. **Erosion of Profitability**: Most of the corporations feel that their basic objective is the maximization of profits and minimization of cost. If corporation spends money on social activities, it increases their costs which would reduce their profitability. They point out that they are not charitable institutions or they are not community service institutions. They are of the opinion that funds allocated for general social responsibility activities will distort the allocation of scarce funds available to a corporation. They fear that if funds are allocated for social purposes that might lead the corporation into a non-entity in the long run.

7. **Social Welfare not the Objectives of Private Units**: Some corporations are of the view that social accounting should be the function of Government, Civil organization and other social Institutions. Social problems can be successfully solved only by those institutions best fitted to deal with them. They blame that social responsibility is clearly anti-business rhetoric
smuggled into economic scene just to modify angry public.

8. **Less Trained Managers**: Corporate managers are not trained to pursue social goals. They are not competent to pursue non-economic objectives successfully.

9. **Problem of Multiplicity of Objectives**: Corporations are not magicians and society expects so many things from them, such as (i) they should offer goods at fair price (ii) satisfy ever hungry working groups (iii) keep the inflation monster under check (iv) pay exorbitant taxes (v) satisfy shareholders. In addition to these functions they must also undertake social projects in a selfless manner. In case, they try to achieve multiplicity of objectives, the important objectives would remain unfulfilled.

10. **Social Accounting a Fair-Weather Concept**: The main object of the business is maximization of profits and minimization of costs. Profit is the dynamic element and motivating force behind economic development and all around and balanced progress. Social responsibility accounting is a fair weather concept.

11. **Fear of Losing Market**: Corporations also fear from their competitors in this respect. If they spend money on social
works and their competitors do not bother about it, that would enhance the relative cost, with the result that prices of their products would be higher than those of their competitors, who avoid spending money on social activities, ultimately, the former company would lose the market by and by substantially.

12. Problem of Choice of Model: The corporations in India, mostly adopt Lev and Schwartz model for valuing their human resources. This method assures stable promotion policy and consistent average salary to all the employees in particular groups. These two assumptions are far from reality. Difference in skill, experience and qualification and increasing importance of employee unions, often lead to changes in these policies. Thus selection of proper model for it and bringing about necessary modification in it poses a serious problem.

13. Inadequate Reporting: HRA reporting is not systematic in the annual reports of several corporations. Every corporation is found to be neglecting some information regarding employees, may be deliberately or by negligence. The need for providing adequate information about human resources is not duly realized by them.
14. Less Trained Accountants: Accountants in the various corporations of the country are not trained to measure several aspects of social activities undertaken by the corporations. The syllabus of ICWA or ICAI does not contain such courses, nor do they get adequate specialized training for it.

15. Cost of Environmental Damages not Identifiable: The corporation working damages the environment in many ways. The cost of such damages cannot be quantified easily. Moreover, they avoid measuring it. Similarly, exact environmental benefits resulting from their activities cannot be measured properly.

In such a situation, it would help if company discloses fairly and fully their social reporting, as that may reduce the complexity of valuation. The standard of disclosure can be assessed at many levels, timeliness, extent and quality of information. The volume and quality of disclosure should be improved. There is also an alarming lack of standardization in social reporting. Improvement in the quality of disclosure, standardization and timeliness are not merely desirable, they are essential features, without which social reporting cannot be effective.
B. PROBLEMS IN APPLYING ACCOUNTING CONVENTIONS

The system of corporate social reporting as stated earlier, has been emerging over a period of time through a process of change. In this process difficulties are also faced with reference to applying the accounting conventions which are applicable to financial accounting. Difficulties occur at the point of friction between the needs created by new situations and the inertia inbuilt in established procedure. For this reason, the problem of corporate social reporting requires a re-appraisal of accounting convention. According to Churchill there are some concepts like the unit of measurement, the time period and objective and full disclosure which are applicable to both financial accounting as well as the social accounting. There are some conventions or concepts which are not applicable to the social accounting. They are the entity convention, the realization convention and the matching convention.

In social accounting costs accrue to the entity, the benefits accrue primarily outside the entity to the entity’s constituencies: customers, supplies, employees, community in which it is located,

2. P. Mohana Rao, Corporate social Accounting and reporting, op.cit., p. 13, 14
stockholders and / or society in general. In economic accounting at the enterprise level one is concerned with the benefits to one constituency, the stockholders, in social accounting on the enterprise level one is concerned with benefits to many. If the corporation is considered the accounting entity then the definition of social costs as those that are above and beyond economic and legal expenses make a little sense. Similarly, the realization and the matching concept conventions become irrelevant to the treatment of social benefits. Socially relevant activities rarely provide the enterprise with an income stream to be recognized as revenue, rather they produce benefits which accrue to some extent to the firm but primarily to the other constituencies involved in some way with the enterprise. Economic accounting theory suggests that recognition usually takes place at the point of transfer of the product to the customer. Accordingly social benefits should be recognized when they occur. This is true even though benefits are of long duration. The benefits once attained become part of the expected and then there is no point in recognizing the same.

Accounting principle of matching holds that revenues and cost in their behalf be reported together in the same period. Comparably, if benefit-producing actions extend over many
periods, then so should the costs. However generally social costs are measured at the enterprise level by the resources expended in producing the social benefit. In this sense, social cost approach is cash rather than an accrual basis of cost accretion.

To overcome such problems, Estes proposed three standards for social accounting. The first level is considered to be obligatory which includes relevance, freedom from bias and understandability. It is suggested that without compliance of all three accounts it should be considered as unacceptable. The others are secondary. They are: timeliness, verifiability, independent attestation, completeness and comparability. These are considered desirable, needing justification in case of non-observance. The third level is of additional consideration. They are: significance, localization, conservatism and acceptability, consistency, quantifiability, monetary expression, media property and matching or evaluative mode.

There is no statutory requirement to disclose information regarding social performances. The Companies Act 1956, does not require a very detailed disclosures of corporate social responsibility information in the annual reports. Many companies feel that it is wastage of time. Through the amendment in 1988, it has been
made compulsory to disclose information about energy conservation, foreign exchange earnings and pollution control measures, but about other social items Companies Act is silent. So it has been left to the sweet will of the companies whether to report social items or not.

C. PROBLEMS IN SOCIAL REPORTING OF BHEL: The present study reveals that Bharat Heavy Electricals Ltd. (BHEL) discloses and reports most of the items of social responsibility in descriptive form.

However, the maximum items of social responsibility were disclosed in directors' report. A little use was made of the other parts of annual reports for disclosure of socially responsible activities.

It was observed that BHEL made disclosure about their human resource development, human rights, labour standards, environment and research and development in Directors' Reports. Human resource management includes Industrial relations, excel awards won by BHEL, HRD, activities of the company for welfare and advancement of scheduled castes and scheduled tribes.

All these information given in Directors' Reports were in descriptive form, so it causes a problem in the valuation of human
resources and natural resources. Fixing prices of natural resources generally involves assigning monetary values to environmental goods and services which are valuable but not traded in the markets.

Lack of suitable standards and guidelines in this respect is a reason for no uniformity in the extent of disclosures.

Information regarding conservation of energy, technology absorption and foreign exchange earnings and outgo is given in Annexure 3 to the Directors' Report.

There is no systematic information about conservation of energy during the period, how much energy is saved and which process is used for conservation of energy is not mentioned.

It was observed that the extent of disclosures varied in its contents and form and no uniformity in the extent of disclosure was observed. The items of social responsibility disclosure were spread all through out the Annual Report. Company had not prepared social accounts like social income statement and social balance sheet separately. In social income statement, information is given on staff, community and general public. Value added statement is also an important part of social reporting, but company did not take interest to prepare these statements. Information were scattered all
through out in the annual report. It was observed that in BHEL there is no separate account for social responsibility items. All the items related to social activities have been given in Profit and Loss A/c etc. The details of social expenditure are given in the schedules of expenditures of profit and loss account. The schedule consists of employees remuneration and benefit, includes retirement benefits, medical benefits, link insurances and staff welfare expenses. Some other social expenditures such as village development and social expenses, donations, entertainment expenses, expenditure on foreign travel have been given in different schedules. It is a problem to collect all these items from annual reports and to show it in a systematic way. Company should make available all the information about efforts made in this regard.

D. PROBLEMS IN SOCIAL REPORTING OF IOC : Indian Oil Corporation (IOC) also discloses most of the items of social activities in its directors’ report. However, the maximum items of social responsibility were disclosed in descriptive form. Some of the items related to social responsibility were also disclosed in the other parts of annual report. IOC discloses the information about research and development, safety and quality, energy conservation, human resources and entertainment expenses through its Directors’
Report. All the items are mostly disclosed in descriptive form. So there is problem of valuation of human resources and natural resources. Information about human resources should be given in the form of human resource accounting but company had not taken any interest to disclose it separately in form of statement or account. It is also difficult to understand these items in descriptive form for the interested parties.

Report on energy conservation, technology absorption and foreign exchange earnings is annexed to director’s report in accordance with the companies (Disclosure of particulars in the report of Board of Directors) Rule, 1988. It may be observed that in IOC, social accounting finds place as an item in the profit and loss account of the organization. The details of social overheads are given in the schedules of expenditures of Profit and Loss Account.

The schedule states payment and provisions for employees which includes salaries, wages, bonus, contribution to funds, voluntary retirement compensation and staff welfare expenses.

IOC’s income and expenditure account on provision of township, education, medical and other facilities are not prepared in a suitable form. All items are not shown in this statement in specific form.
There is a problem to identify and measure the social contribution of a company consisting of cost and benefits.

If the company provides the optimal information in systematic form to all the constituents of the society, it will help them to make decisions regarding social responsibility. Without proper information, 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, concepts and the methodology for measurement of social activities.