



CSR and social accounting, auditing and reporting

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Abstract

The broad rationale for a new set of ethics for corporate decision making, which clearly constructs and upholds an organization's social responsibility, arises from the fact that a business enterprise derives several benefits from society, which must, therefore, require the enterprise to provide returns to society as well. This, therefore, clearly establishes the stake of a business organization in the good health and wellbeing of a society of which it is a part. More importantly, in this age of widespread communication and growing emphasis on transparency, the managers should help their company in development of a CSR management and reporting framework.

The more the concepts of CSR are fostered and integrated into the business process, the easier it will be to benefit from alternative thinking and perhaps handle the occasional problems that for certain will occur. The more integrated the business process within the value chain, the more opportunity there will be for organizations to influence the approaches of others on whom they depend. The concept of CSR includes the openness or transparency of companies as well as taking into consideration the will and expectations of their stakeholders.

The main purpose of the study is to reveal whether there is any identifiable gap between shareholders value and social responsibilities in Indian corporate scenario. Whether both the element can coexist quite well. Whether CSR means that a company's business model should be socially responsible and environmentally sustainable.

The paper also aims to analyze some of the international research evidence on the effects associated with the introduction of CSR in the corporate houses and seeks to evaluate the state of introduction of similar modal in Indian context.

The present study is based on both primary and secondary data. The secondary data is collected from various sources like books, journals, reports, etc., available in both print and electronic medias. The primary sources of data are of a case study-based survey.

The study will cover top 10 most profitable Indian companies from Business & Economic survey (out of 100 most profitable companies as per latest Business & Economy Ranking). The size of the sample constitutes 10% of the population.

Keywords: Corporate Social Responsibility (CSR), Social Accounting, Social Auditing, Social Reporting

Introduction

A brief history of social accounting

The concept of social accounting originated in different forms by Adam Smiths in 1776, Later on, Karl Marks and Engel also expressed their views about social costs in 1844. Karl Marx went to the extent of saying "under this free trade the whole severity of the economic laws will fall upon the workers".

Pigou in 1920 also elaborated the divergence of social and private costs. Economists like E.H. Chamberlin in 1945, Joan Robinson in 1960 expressed their concerns directly or indirectly about the social costs of an industrial organization. Social accounting is that branch of accounting, which is, concerned with the functioning of social system as a whole. It may be considered as the accounting for community. The areas covered by social accounting include pollution control, community relations, product quality, plant safety, equal employment opportunity, charitable contributions, employee benefits, and so on and so forth.

Initial developments regarding the concept of social accounting as a means to measure the effect to firm's operations on the society began in the 1920s (Wood and Wood, 2004). The concept to conventional accounting continued being challenged in 1930s (Berle and Means, 1932, cited in Mook, 2013). Social responsibility is a concept that has certain similarities with social accounting, and was the first to be analyzed the term 'social responsibility' was specifically stated in literature of the

1930's and 1940s. One of the pioneers in this field was (Bowen, 1995 cited in Idowu and Filho, 2009). He claimed that a link exists between a business and social responsibility and that in the future every business would be driven through its social responsibility (Bowen, 1953, cited in Carroll, 1999) [8]. In the 1950s, a number of sociologists began studying accounting approaches (Pyatt and Roe, 1977). The social accounting model was in corporate denotational accounts in the 1960s (Horrihan, 2010). Social and economic factors were both included in macroeconomic planning, which is referred to as Social Accounting Matrices (SAM), as established by Stonehand Brown (1962). The SAM framework was not just a statistical measure; it was also a framework for macroeconomic analysis, since information could be arranged regarding the social and economic structure of a firm, forming a database for a model of its economy. Hence the SAM framework was seen as relatively successful (Sen, 1996). In the 1970s, these appeared in the form of the firm's Corporate Social Responsibility (CSR) has become an increasingly important activity to businesses nationally and internationally. It promotes a vision of business accountability to a wide range of stakeholders. As globalization accelerates and large corporations serve as global providers, these corporations have progressively recognized the benefits of providing CSR programs. The term CSR is often used interchangeably with the term Corporate Citizenship and is also linked to the concept of Triple Bottom Line Reporting (TBL), which is

used as a framework for measuring an organization's performance to improve the social and economic status of various stakeholders involved while complying with all legal and economic requirements. In essence it is about building sustainable businesses, which need healthy economies, markets and communities. "The phrase Corporate Social Responsibility was coined in 1953 with the publication of Bowen's Social Responsibility of Businessmen" (Corporate watch report, 2006). The history of social and environmental concern about business is as old as trade and business itself. Industrialization and impact of business on the society led to completely new vision. By 80s and 90s academic CSR was taken into discussion. The first company to implement CSR was Shell in 1998. (Corporate watch report, 2006) With well informed and educated general people it has become threat to the corporate and CSR is the solution to it.

"Global corporate social responsibility entails managing effectively the company's actual and potential environmental and social impact on the communities in which the firm operates and on society as a whole."

David Grayson, President of Business in the Community in Great Britain

"Companies are realizing that it is in their business interest to „do the right thing everywhere they operate. Global firms are keenly aware that their long-term investment goals can only be achieved within a stable, healthy and free of social and financial environment. But companies alone cannot solve the challenges associated with social responsibility. They must work in cooperation with governments, civil society groups, development institutions, and citizens."

World Bank

Corporate Social Reporting

Corporate Social Reporting is a process through which information is passed to the public regarding company's activities undertaken for the benefit of society. It has multiple effects. CSD reporting companies may gain an edge as compared to their silent peers. It enhances companies' reputation and helps to strengthen stakeholder's relations as reporting promotes corporate transparency and

instills confidence and trust among the stakeholders. It gives motivation to silent companies also who lack behind in the field of CSR. Previous studies on developed countries have shown that CSD in annual reports has increased over time in response to a number of factors. Some of the reasons may be attributed to increase in legislation, risk, activities of pressure groups, ethical investors, specific events, awards, economic activities,

media interest, societal awareness, and politics. A trend towards increasing levels of disclosure has been observed. However, the levels of disclosures are still low. Some of the efforts taken by stock exchanges and Govt. in India in context with CSD are as follows:

Disclosure efforts by stock exchanges

- a. 2009 Voluntary guidelines for CSR are issued.
- b. 2008 The Companies Act states that board of directors' reports shall contain information on conservation of energy.
- c. 1986 Specified corporations shall submit an annual environmental audit.

Disclosure efforts by Govt

2012 -Bombay Stock Exchange launches green index. 2011- The Securities and Exchange Board of India mandates listed companies report on Environmental, Social and Governance (ESG) initiatives undertaken by them, according to the key principles enunciated in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business. 'Many studies have been conducted to investigate the themes that fall under the area of CSR. The scope of CSR is quite unbound at the present time. As there is no single, commonly accepted definition of CSR, so there is also no commonly accepted classification of the main components of CSR. Often, CSR is related to Environmental protection, Labor Security, Human right, Community involvement, Business standards, Marketplace, Enterprise and economic development, Health promotion, Education and Leadership Development, Human Disaster Relief.

Empirical Literature

Table 3.1: Summary of methodology, sample and results

Author	Methodology and Sample	Main Result
Maphosa (1997), Zimbabwe	Content analysis of 63 companies listed on the Zimbabwe Stock Exchanges of 24 April 1996	The analysis of Zimbabwean Corporate Reports indicates that financial issues receive detailed coverage with very little mention of social issues. Social issues included in annual report took up between two lines and one page of the whole report. Social issues appearing in the reports were predominantly concerned with companies' social responsibility to their employees.
Ahmed, Sulaiman and Siswanto (2003) Malaysia	Content analysis to examine the incidence of CSR disclosures in annual report of 98 Companies listed in Kuala Lumpur Stock Exchange (KLSE)	As many as 84% of the Company in the sample had CSR disclosures in their annual Reports. 72.4% of the total number of Companies in the sample made CSR disclosures in the area of products and consumers. CSR disclosures in company annual reports were dominated by declarative statements.
Mamman (2004) Nigeria	Content analysis of 30 listed companies in the Nigeria Stock Exchange in the 2002	There is a growing tendency of firms reporting information on social performance in their financial statements. The dominant area of social accounting disclosure is human resources and the next area is environmental contribution.
Gunawan (2007) Indonesia	Content analysis of 100 Companies chosen from SEBI website, whose head office is in West Bengal and Sales Volume is more than 200 crores of rupees in the year 2007-08.	Fifty percent companies in West Bengal do not disclose their corporate social Performance Environment, community welfare, education and health care are the prominent areas of social performance and sports, energy conservation, Adult Literacy are the neglected sectors.

Social Accounting in India—The Present Case Study Reports

The Sachar Committee in its report in 1978 recognized the need for social disclosures. It has observed that the acceptance of the concept of social responsibility must be reflected in the information and disclosures that the company makes available for the benefit of the shareholders, creditors, workers and the community. It recommended that a provision may be made in the companies Act that every company along with Directors „Report shall also give a “Social Report” which will indicate and quantify in as precise and clear terms as possible activities relating to social responsibility, which have been carried out by the company in the previous year. The Institute of Chartered Accountants of India (ICAI) also encourages companies for reporting their social performance in their annual reports, as it gives the award for the best presented annual reports every year considering “Social Accounting” as one of the criteria. The Amendments of 1988 to the Indian Companies act require the disclosure of “energy conservation and pollution control”. A few attempts have, however, been made by some of the enlightened company managers, of both the public and private companies, to exhibit some information, descriptive as well as quantitative, regarding the social activities undertaken by them-in their respective annual reports particularly in public sector. The concept was relatively new for India and is yet to gain momentum, Tata Iron and Steel Company (TISCO) was the first in India which conducted social accounting with the sole aim to examine and report to what extent company has been able to fulfill its objectives regarding its social and local community. India may become the world’s first country to make corporate social responsibility mandatory. Companies Bill, 2013 is passed after endorsing all the propositions made by Parliamentary Standing Committee on Finance, corporate social responsibility (CSR) would become mandatory for the first time in the world in any country. In August 2013 the parliament has made CSR to be mandatory. The statements advocate that those companies with net worth above Rs. 500 crores, or an annual turnover of over Rs. 1,000 crores, shall earmark 2% of average net profits of the three years towards CSR. In the draft Companies Bill, 2009, the CSR clause was voluntary, though it was mandatory for companies to disclose their CSR spending to shareholders. There is a growing realization among organizations that is not merely sufficient to provide funds to support causes initiated by non-profits, and when employees volunteer for a cause, it’s a win-win situation for both the organization and the employee as it helps improving managerial skill and enhancing profit. A study of the annual report of 50 public sector companies and 50 private sector companies was carried out regarding reporting and disclosure of social accounts in their annual reports. The following are the 10 such public sector companies:

1. Oil and Natural Gas Commission (ONGC)
2. Cement Corporation of India (CCI)
3. Steel Authority of India Ltd. (SAIL)
4. Bharat Heavy Electricals Ltd. (BHEL)
5. Oil India Ltd. (OIL)
6. Hindustan Aeronautics Ltd. (HAL)
7. India Petrochemicals Ltd. (IPCL)

8. Fertilizer Corporation of India (FCI)
9. Indian Iron Steel Co. Ltd. (IISCL)
10. Maruti Udyog Ltd. (MUL) etc.

The study of annual reports of various private and public sector companies reveals that some public sector companies regularly prepare and publish social accounts in their annual reports. Most of the public undertaking give some reference about social performance in either chairman’s speech or by way of foot notes. Annual reports of private sector companies still do not contain substantial information regarding their social performance. They contain some descriptive information either in chairman’s speech or by way of footnotes.

Need for Social Accounting

The practice of social accounting is followed only by a handful to enterprise in public sector. (Jahan: 2001) That there is greater need for social accounting in India for; 1 The management fulfills its social obligations and informs its members, government and general public. 2 There are certain legal obligations that have to be fulfilled by the business, such as social security obligations and welfare measures etc. The management reforms the public and governmental about its efforts in this regard through social accounting 3 Management gets a feedback on its efforts and policies aimed at welfare of the society. 4 Social accounting is also necessary from the viewpoint of public interest group, social organization, investors and government bodies. 5 Through social accounting the company proves itself that it is not socially unethical in view of moral cultural and environment degradation.

In this chapter the present researcher uses the technique of content analysis. The analysis is confined to study of annual reports. Content analysis was used to examine the incidence of CSR disclosures in annual reports. Content analysis is defined as a research technique for the objective, systematic and qualitative description of the manifest content of communication (O Dwyer, 2005). It is clearly defined by Weber (1988) as a method of coding the text or the content of a piece of writing into various groups or categories based on selected criteria (Jamil *et al.*, 2003). Content analysis is an established research technique in CSR (Abbott & Monsen, 1979; Ernst and Ernst, 1978; Guthrie & Mathews, 1985; Guthrie & Parker, 1990; Zeghal & Ahmed, 1990). Annual reports are the most widely used documents in the analysis of corporate social activities in spite of a broad range of corporate documents (such as brochures, press releases and the like) released to the public to provide information about an organization’s social practices. Research has commended annual reports for their credibility (Tilt, 1994), regularity (Niemark, 1992), accessibility and reporting useful information to stakeholders (Deegan & Rankin, 1997). Annual reports are considered as a vital document constructing CSR of firms (Gray *et al.*, 1995). Taking 2010-2011 as the target year, 30 companies across various industries constituting BSE Sensex were chosen of which 4 companies are in Banking and Finance Industry, 7 in Transport Equipment and Capital Goods industry, 2 in healthcare, 1 in Telecom Sector, 2 in healthcare, 4 in Metal Industry, 2 in FMCG Sector, 3 in IT Sector, 2 in Power, 4 in Oil and Gas and 1 in Construction Industry.

Results and Discussion

Table 6.1: The findings from annual reports are shown in the table given below

Sector	Number of Companies	Companies making disclosure	
		Number	Percentage
Construction	1	1	100%
Transport Equipment	5	5	100%
Capital Goods	6	6	100%
Telecom	1	1	100%
Healthcare	2	2	100%
Banking and Finance	4	4	100%
FMCG	2	2	100%
Information Technology	3	3	100%
Power	2	2	100%
Oil & Gas	4	4	100%

The percentage of companies within the sample with CSR disclosures is 100% as indicated in Table 6.1. Therefore, it can be deduced that there is a growing concern for

companies reporting social performance in their financial statements, though the nature of disclosure, location of disclosure, form and manner of disclosure may be different.

Table 6.2: Themes of CSR Disclosures by Companies in 2014-2015

Theme	Number of Companies disclosing	Percentage of Total Company
Environment	19	63%
Energy Conservation	12	40%
Disaster Management	5	17%
Safety & Health Care	23	77%
Women Empowerment, Child Welfare	7	23%
Education	17	57%
Poverty Eradication and Employment	4	13%
*Others	9	30%

(* Others include community development, population stabilization, sports promotion, heritage conservation)

Table 6.2 shows the themes of CSR disclosures in India. Seven specific social responsibility areas were considered in this study. They were Environment, energy conservation, disaster management, safety and health care, women

empowerment and child welfare, education and poverty eradication. The rest were grouped under an “Others” category.

Table 6.3: Form of CSR Disclosures by Companies in 2014-2015

Category	Number of Companies disclosing	Percentage of Total Company
Qualitative (Declarative)	8	27%
Monetary and Non-Monetary Quantification	16	53%
Non-Monetary Quantification	6	20%
Total	30	100%

Table 6.3 shows that 53% of the companies disclose social accounting information using monetary as well non-monetary format whereas 20% of the companies used non-

monetary format only. There were some companies who used declarative format only without giving any evidence of CSR programmed carried out by them.

Table 6.4: Location of CSR Disclosures by Companies in 2010-2011

Locations	Number of Companies Disclosing	Percentage of Total Companies
Director’s Report	13	43.33%
Chairperson’s Report	3	10%
Separate section in Annual Report	4	13.33%
Both in Director’s Report and Chairperson’s Report	3	10%
Director’ Report and Separate section	1	3.33%
Both in Director’s Report and Separate section	2	6.67%
In Director’s Report, Chairperson’s Report as well as Separate Section	4	13.33%
Total	30	100%

Table 6.4 shows that 3(10%) of the sample companies disclosed CSR information in the chairman s statement; 13(43.33%) disclosed CSR information in the directors’ report; 4(13.33%) in the separate section of annual report. The paper discovers that Directors report is the most popular location where CSR information is disclosed by companies in India and also this result is also consistent with Mamman (2004) study and Appah Ebimobwei (2011) study that

Directors report is the most preferred location of CSR information.

Observation

The analysis reveal that companies are focusing on the area of Environment, energy conservation, disaster management, safety and health care, women empowerment and child welfare, education and poverty eradication but Safety and

health care is the trend of social accounting disclosure in the annual report as 77% of companies have emphasized upon this area. Though there are various places for making CSR disclosures in the Annual Reports, but Director's report is the most popular location among the companies in India. Some of the companies like Bharti airtel, BHEL, HDFC, Hindalco, Jindal steel, Tata Motors, SBI and Tata Steel have attached separate CSR Report in the annual reports to reveal the various CSR initiatives taken by them in depth. As far as form of CSR disclosures is concerned, the trend is changing. Earlier studies revealed that the maximum disclosures were in the form of qualitative statements but this study has formed the opinion that majority of disclosures are in the form of monetary and non-monetary quantified statements.

Conclusion

The broad rationale for a new set of ethics for corporate decision making, which clearly constructs and upholds a organization's social responsibility, arises from the fact that a business enterprise derives several benefits from society, which must, therefore, require the enterprise to provide returns to society as well. This, therefore, clearly establishes the stake of a business organization in the good health and wellbeing of a society of which it is a part. More importantly, in this age of widespread communication and growing emphasis on transparency, the managers should help their company in development of CSR management and reporting framework.

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