

APPROACHES OF CORPORATE SOCIAL REPORTING: A STUDY OF SELECTED PUBLIC SECTOR UNDERTAKINGS IN INDIA

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ABSTRACT

A socially structured income statement and balance sheet can help to businessman. Most of the organization does not show proper social reporting in its annual reports. Different approaches are adopted by the companies in India. Theoretical presentation, pictorial presentation and additional accounts are most popular presentation in India. Apart from monetary factors, other non-monetary aspects should be considered.

Keywords: Social Reporting, Chi-Square Test, Non-Monetary Factors, Social Environment.

Introduction

Trueblood Committee Report¹ observed that the objective of financial statement is to report on those activities of the enterprise effecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment.

Similarly, the Sachar Committee² observed that "the company must behave and function as a responsible member at the society just like any other individual. The profit is necessary but it is not primary objective. The company must accept its obligation and work for the larger benefit of the community".

A Socially structured income statement and balance sheet can help the businessman in emphasizing the importance of business to the nation's welfare.

Approaches of Corporate Social Reporting

There is no standard format for social reporting. A number of approaches ranging from descriptive to purely quantified statements have been suggested by various researches for reporting corporate social performance. Some approaches suggested by researchers are given below:-

Extension of Financial Statements

- **Footnotes Disclosers**

The footnotes disclosures consist of quantitative measurement on social involvement of the firm to be included as an additional footnote to the financial statement of annual report.

- **Additional Accounts**

AAA Committee on Environment Effects of Organisational Behaviour³ suggested the use of additional accounts for environmental disclosures. The committee recommended that environmental control expenses be collected in new, separate accounts in the income statement.

- **Pictorial Presentation**

In this approach⁴, photographs of different social activities undertaken by the firm, is presented in its annual report i.e. photographs of health care centre, school activities, union activities, employees cultural programme, games etc.

- **Integral Welfare – Theoretical Approach**

This approach is quite similar to what has been proposed by Clark Abt, Bauer etc. The profit and loss account should include a list of various positive and negative external effects. Similarly, the societal balance sheet lists the social assets and social debts.

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- **Social Indicator Approach**

It refers to development of social indicator at the level of firm and to measurement of firm's contribution to overall quality of life in various areas. Brummet has identified five possible areas:-

- Net income contribution
- Human resource contribution
- Public contribution
- Environmental contribution
- Product or service contribution

- **Goal Accounting and Reporting Approach**

Companies should elaborate its goals and objective describing economic and social goals. Therefore, it involves splitting the process of evaluating business social performance in tow distinct but unter-related areas:

- Selection goals
- Reporting and assessment of company's performance as per selecting goals.

New Reporting Formats

- **Social Statement Approach**

This approach⁵ consists of two parts, social income statement and social balance sheet. The object of this approach is to determine the full impact of corporate activities on different constituents. The social income statement part provides social benefits and costs to staff, local community and general public. The balance sheet part of the social statement depicts the social investment of capital nature (i.e. social assets) on the assets side viz-township, water supply, roads, building hospital, school etc. and shows organization equity and social equity on liability side.

- **Operating Statement Approach**

Under this approach, Social Income Statement and Social Balance Sheet are not prepared. Instead, the firm presents only the positive and negative aspects of social activities.

The positive aspects are broadly termed as "Social benefits" and negative aspects are termed as "Social Cost". Net social contribution is represented by social benefits minus social costs.

- **Linowes Socio-Economic Operating Statement**

This approach aims at focusing on "What corporation has done for society on the one hand and what it has failed to do on the other"⁶. A firm should prepare a social statement periodically showing the expenditure made for improvement in social area.

- **Estes's Comprehensive Social Benefit-Cost Model**

Ralph W. Estes⁷ has proposed an accounting model that systematically reflects the worth of all sources consumed. Estes defines the two terms, social benefits and social cost in the following manner:

Social Benefits

Any benefits to society whether economic or noneconomic, internal or external which include those benefits provided by an entity, for which it is compensated as well as those external economies or bargains for which no compensation (or inadequate compensation) is received.

Social Costs

Any cost, sacrifices or detriment to society whether economic or non-economic, internal or external. Social costs include sacrifices for which compensation is made (such as human services used or paid for) as well as detriment not paid for (such as air pollution), any payments are treated separately as a benefit to society.

- **Lee Seidler's Social Income Statement**

Lee Seidler⁸ suggested two "Social Income Statement" one for a profit seeking organizations and another for non-profit seeking organizations. In addition to reflect the contribution of a profit seeking entity from its basic economic activities, the social income statement adds socially desirable output for which no money is received and deducts cost that the entity imposes on society but does not pay for.

- **Bikki Jaggi's Model**

Bikki Jaggi⁹ has developed one format for the disclosure of social information. This model is based on the suggestions by National Association of Accountants.

- **Dilley and Weygandt's Format**

In this approach¹⁰, different types of statements would be required for different type of firms. The first statement in the suggested approach resembles to the independent auditor's opinion on financial statements. The second one describes the company. The third one briefs its community.

Social Disclosure Practices in India

General observation of social reporting shows that there is wide difference in social reporting practices in concerns under study. It is the question whether this difference is significant or not. To justify this question, Disclosure Index is calculated on the basis of "Factor and Point method".

The relative worth of various factors is determined keeping in view its importance to social responsibility. For this purpose, maximum point value is assigned to each factor. Members of evaluation committee decide the relative values by consensus. In this study, Maximum point value to each factor is given in Appendix G.

After deciding maximum point values for all the factors, points are assigned to degrees of each factor. Arithmetic or geometric programmes may be used for assigning point values. Under arithmetic progression, the difference between two successive degrees is kept equal. In the present study, arithmetic progression is used. Assigned point values to all factors are given in Appendix G.

Highest weight 1450 points as per table 1 are given to disclosure of both human resources contribution and public contribution because both these areas are key areas of social responsibility. 800 points are given to disclosure net income contribution.

DIN of SAIL is 59.19% which is highest among all the public undertakings in India. DIN of BHIL is 51.84% with rank "B" which indicates good position of disclosure practices but improvements in disclosures about environment contribution, public contribution and human resources contribution are needed. DIN of OIL is 53.16% which shows satisfactory disclosure practices but improvement are needed in environment contribution of OIL.

There are significant differences in social disclosure practices of public sector undertaking in India. There are lack of uniformity in social disclosure practices. It is the question of inquiry that what factors are responsible for these differences. To analyse this question, correlation coefficient between capital employed and DIN (r_1), value added and DIN (r_2) and ROI & DIN (r_3) are calculated.

$r_1 = +0.5325$ shows that correlation between capital employed and disclosure index is positive and moderate degree. The coefficient of determination (r_1^2) shows that only 28.26% changes in DIN are due to capital employed.

Value of r_2 is 0.6281 which shows positive correlation between value added and DIN. The coefficient of determination (r_2^2) indicates that only 39.45% changes in DIN are due to capital employed. Value added is the result of higher productivity and efficient workings of the companies. Hence, companies of higher productivity and efficient working have higher degree social disclosure practices.

r_3 is the correlation between ROI and disclosure index which is 0.6579, ROI is an indicator of overall performance of the company. This correlation indicates that companies having higher ROI disclose more social factors than companies having low ROI. The coefficient of determination (r_3^2) also prove the same facts that 43.28% changes in DIN are due to return on investment.

Other non-monetary factors like management-labour relationship, management's perceptions about social disclosures, quality of executive personnel, Government and public pressures, requirements of law, social environment of respective area, investor's thinking etc. also effect on social disclosure practices. All the above factors effect social disclosure practices. Every company specially the public sector undertakings should study all these factors before finalizing their disclosure policies. If a public sector undertaking considers all above factors, the company will be able to discharge its duty towards different parties.

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Table 1: Calculation of Relative Indicies (RI) and Disclosure Index Number (DIN)

Area	Maximum		BHEL		MMTC		SAIL		IA		MAMC		CCI		OIL	
	Point		Point	RI	Point	RI	Point	RI	Point	RI	Point	RI	Point	RI	Point	RI
Net Income contribution	800	100	632	79	544	68	604	75.5	180	22.5	372	46.5	512	64	512	64
Human resource contribution	1450	100	628	43.3	770	53.1	860	59.3	332	22.9	248	24	528	36.4	818	56.4
Product contribution	400	100	200	50	164	41	212	53	136	34	148	37	160	40	260	65
Environment contribution	500	100	220	44	100	20	220	44	40	8	120	24	60	12	120	24
Public contribution	1450	100	622	42.9	600	41.4	930	64.1	746	51.5	690	47.6	560	38.6	818	56.4
RI		500		259.2		223.5		295.9		138.9		179.1		191.0		265.8
				51.84		44.7		59.19		27.77		35.82		38.21		53.16
DIN				B		C		B		D		C		C		B

Appendix – G**Analysis of Social Responsibility Disclosure
(Based on Factor and Point Method)**

Factors	Maximum Score		BHEL		MMTC		SAIL		IA		MAMC		CCI		OIL	
	Degree	Point Value	Degree	Point Value	Degree	Point Value	Degree	Point Value	Degree	Point Value	Degree	Point Value	Degree	Point Value	Degree	Point Value
A. Net Income Contribution																
Financial highlights	5	100	5	100	5	100	5	100	5	100	5	100	5	100	5	100
Ratio of Gross profit to capital	5	60	3	36	3	36	3	36	1	12	2	24	2	24	2	24
Earnings per share	5	40	3	24	3	24	3	24	0	0	2	16	2	16	2	16
Ratio of net profit to sales	5	60	3	36	3	36	3	36	0	0	2	24	2	24	2	24
Return on investment	5	100	3	60	3	60	3	60	0	0	2	40	2	40	2	40
Local Taxes Paid	5	40	2	16	1	8	1	8	10	8	1	8	1	8	1	8
Value added statement	5	100	5	100	5	100	5	100	0	0	5	100	5	100	5	100
Presentation of social profit and loss account	5	100	5	100	3	60	5	100	3	60	3	60	5	100	5	100
Presentation of social balance sheet	5	100	5	100	3	60	5	100	0	0	0	0	5	100	5	100
Presentation of social audit report	5	100	3	60	3	60	2	40	0	0	0	0	0	0	0	0
Total (A)		800		632		544		604		180		372		512		512
B. Human Resources Contribution																
Education	5	80	2	32	4	64	4	65	1	16	2	32	4	64	4	64
Holiday benefits	5	60	2	24	4	45	4	48	2	24	0	0	4	48	4	48
Health services	5	60	3	36	5	60	4	48	2	24	1	12	4	48	4	48
Housing and Transportation	5	80	3	48	1	16	5	80	2	32	1	16	2	32	4	64
Community planning and improvement	5	80	1	16	3	48	2	32	0	0	0	0	0	0	2	32
Voluntary Activities	5	40	2	16	2	16	2	16	2	16	2	16	0	0	2	16
Special food programmes	5	40	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retirement benefits	5	80	2	32	4	64	2	32	0	0	0	0	3	48	2	32
Employment potential & Man-power strength	5	70	4	56	3	42	4	56	2	28	2	28	4	56	5	70
Training programmes	5	80	2	32	3	48	4	64	2	32	2	32	3	48	5	80
Transfer & Promotion policies	5	80	0	0	0	0	0	0	0	0	0	0	0	0	2	0
Remuneration	5	80	3	48	3	48	4	64	1	16	1	16	4	64	4	64
Working Condition	5	100	2	40	2	40	2	40	2	40	2	40	0	0	2	40
Job enrichment	5	60	2	32	2	32	2	32	2	32	2	32	0	0	0	0
Communication	5	60	2	24	2	24	3	36	0	0	2	24	2	0	2	24
Job evaluation & Merit rating	5	80	1	16	2	32	2	32	0	0	0	0	0	0	3	48
Safety measures	5	80	2	32	0	0	2	32	2	32	0	0	0	0	5	48
Industrial relation	5	100	4	80	3	60	4	80	2	40	2	40	2	40	3	60

Presentation of Human resources accounts	5	80	4	64	5	80	5	80	0	0	0	0	5	80	5	80
Voluntary retirement scheme & their benefits	5	60	0	0	4	48	2	24	0	5	60	0	0	0	0	0
Total (B)		1450		628		770		860		332		348		528		818
C. Product Contribution																
Product quality	5	80	2	32	3	48	2	32	2	32	2	32	2	32	3	48
Product safety	5	60	2	24	0	0	2	24	2	24	2	24	2	24	3	36
Content and frequency of advertisement	5	60	4	48	4	48	3	36	1	12	1	12	1	12	1	12
Labeling, Packing and Marketing	5	60	1	12	2	24	2	24	1	12	1	12	4	48	2	24
Constructive research and development	5	60	3	36	1	12	4	48	2	24	3	36	1	12	5	60
1. Product standardisation	5	80	3	48	2	32	3	48	2	32	2	32	2	32	5	80
Total (C)		400		200		164		212		136		148		160		260
D. ENVIRONMENT CONTRIBUTION																
Air pollution and their conservation	5	100	2	40	1	20	2	40	2	40	2	40	1	20	2	40
Water pollution and their conservation	5	100	2	40	1	20	2	40	0	0	2	40	1	20	2	40
Sound pollution and their conservation	5	100	2	40	1	20	2	40	0	0	0	0	0	0	0	0
Solid waste pollution and their conservation	5	100	2	40	1	20	2	40	0	0	0	0	0	0	0	0
Overall environmental improvement	5	100	3	60	1	20	3	60	0	0	2	40	1	20	2	40
Total (D)																
E. Public Contribution																
General philanthropy	5	80	2	32	2	32	4	64	2	32	3	48	2	32	2	32
Equal pay equal work equal opportunity	5	60	0	0	0	0	2	24	0	0	0	0	0	0	2	24
Aid in general & business problems	5	60	2	24	2	24	3	36	0	0	0	0	0	0	2	24
Reservation of minorities employment	5	60	3	36	2	24	3	36	0	0	2	24	0	0	4	48
Reservation of handicapped persons in employment	5	60	0	0	0	0	0	0	0	0	2	24	0	0	4	48
Reservation of women in employment	5	60	0	0	0	0	0	0	0	0	2	24	0	0	2	24
Consumer education	5	80	0	0	2	32	2	32	2	32	0	0	2	32	0	0
Response to consumer complaints	5	100	2	40	0	0	2	40	2	40	0	0	2	40	0	0
Warranty provisions	5	80	0	0	0	0	0	0	2	40	2	40	0	0	0	0
Capacity Utilization	5	100	3	60	2	40	4	80	4	80	4	80	3	60	3	60
Generation of business	5	60	3	36	2	24	2	24	4	48	2	24	2	24	2	24
Increase in living standard due to company affairs	5	40	0	0	0	0	2	16	2	16	2	16	2	16	2	16
Foreign exchange earning	5	100	1	20	5	100	5	100	5	100	5	100	3	60	5	100
Energy conservation	5	100	5	100	5	100	5	100	5	100	5	100	3	60	5	100
Public relation expenses	5	60	4	48	5	60	5	60	1	12	1	12	2	24	5	60
Expenditure on social overheads	5	90	5	90	0	0	5	90	5	90	5	90	4	72	5	90
Contribution to Government exchequer	5	100	5	10	5	100	5	100	4	80	1	20	5	100	5	100
Use in Hindi	5	100	0	0	2	40	4	80	2	40	2	40	2	40	4	80
Pictorial presentation of social activities	5	60	3	36	2	24	4	48	3	36	4	48	0	0	3	36
Total (E)		1450		622		600		930		746		690		560		818
GRAND TOTAL (A+B+C+D+E)		4600		2302		2178		2826		1434		1678		1820		2528

