P: ISSN NO.: 2321-290X RNI : UPBIL/2013/55327 VOL-4* ISSUE-12* August- 2017
E: ISSN NO.: 2349-980X **Shrinkhla Ek Shodhparak Vaicharik Patrika**

Corporate Social Reporting in India (A Study of Selected Public Sector Undertaking in India)

H. N. Gupta
Lecturer,
Deptt.of Accountancy & Business Statistics,
Govt. P.G. College,
Dausa, Rajasthan

Abstract

The traditional income statement gives little information on the benefits derived from a firm by its employees, suppliers, creditors, customers or government. A socially structured income statement and balance sheet can help the businessman in emphasising the importance of business to the nation's welfare. Main objectives of this paper are to evaluate social disclosure practices of corporate sectors in India. The study also inquires factors responsible for different social disclosure practices in India. It is suggested that Accounting standard for social responsibility should be developed.

Keywords: Maximising Wealth of the Owner**,** Human Resources, Public Contribution, Product Contribution, Social Cost, Social Benefits, Social Reporting, Social Disclosure Practices.

Introduction

Accounting is essentially a science of measurement. It is the duty of the accontants to measure and report how bests the firm's properties and assets have been put to use by those who run and manage it for maximising the wealth of the owners.

The traditional income statement gives little information on the benefits derived from a firm by its employees, suppliers, creditors, customers or government. A socially structured income statement can place a new emphasis on corporate profit as being to the advantage of all groups interested in the corporation, not just the shareholders. A socially structured income statement and balance sheet can help the businessman in emphasising the importance of business to the nation's welfare.

"Trueblood Committee Report 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."[1]

Similarly, the Sachar Committee 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".[2]

No balance-sheet can serve the needs of all the readers at the same time but this can not be a valid argument for continuing the status quo. The balance-sheet should be more informative, readably and useful.

Review of Literature

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

AAA Committee on Environment Effects of Organisational Behaviour[3] 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.

The article titled The Social Audit for Management[4] written by Clark C. Abt states that 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.

The article titled An Approach to Socio-Economic Accounting[5] written by David F. Linowes consists of two parts. One, social income statement and other 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 organisation equity and social equity on liability side.

The book titled **Corporate Social Accounting**[6] written by Ralph W. Estes states that Social Income Statement and Social Balance Sheet are not prepared. 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. Ralph W. Estes has proposed an accounting model that systematically reflects the worth of all sources consumed.

The book **Dollor Values in the Social Income Statement**[7] written by Lee Seidler suggested two "Social Income Statement" one for a profit seeking organisations and another for non-profit seeking organisations. 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 jas developed one format for the diclosure of social information in his article **Social Performance : Objective Measurement and Reporting Problems.**[8] This model is based on the suggestions by National Association of Accountants.

The book **Measuring Social Responsibility: an Empirical Test**[9] written by Steven C. Delley and Jerry J. Weygand states that 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.

The book Ethics and Corporate Social Responsibility[10] written by Ronald R.Sims related with business corporate social responsibility. The book suggested that corporate management is successful in its target only with the help of good social practices.

Aim of the Study

In the present study, different types of social reporting methods are discussed. Main objectives of this paper are to evaluate social disclosure practices of corporate sectors in India. The study also inquires factors responsible for different social disclosure practices in India.

Hypothesis

The study is based on the hypothesis that:

1. There are no differences in social disclosure practices of public sector undertakings in India.
2. Value added, capital employed and ROI do not effect social disclosure practices of public sector undertakings in India.

Research Design

The study of based secondary date collected from selected public sector undertaking in India. The secondary data are collected from BHEL, MMTC, SAIL, CCI, OIL and IA. Other secondary data are collected from books, journals and newspapers. Statistical Techniques such as Disclosure index number (DIN), Chi-Square test and Karl Pearson's Coefficient of Correlation etc. have been applied to analyse the data.

Findings and Discussion

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".

Chi-square test and Karl Pearson's Coefficient of Correlation has been applied to judge differences in disclosure practices:

Calculation for Chi-square Test to Judge Differences in Disclosure Practices

Name of company	Observed value (DIN)	Expected value	(O-E)	$(O-E)^2$	$(O-E)^2$ /E
BHEL	51.84	42.55	9.29	86.31	2.028
MMTC	44.70	42.55	2.15	4.62	0.109
SAIL	59.19	42.55	16.64	276.89	6.507
IA	27.77	42.55	(-) 14.78	218.45	5.134
CCI	38.21	42.55	(-) 4.34	18.84	0.443
OIL	53.16	42.55	10.61	112.57	2.646
				χ^2	**16.867**

Null Hypothesis

Difference in social disclosure practices in public sector undertakings in India is not significant.

Alternative Hypothesis

There is a significant difference in social disclosure practices in public sector undertakings in India.

Calculated value of $\chi^2 = \Sigma \dfrac{(O-E)^2}{E}$

O = Observed values.

E = Expected values.

χ^2 = 16.867

Degree of freedom (df) = n - 1= 8 - 1 = 7

Table value of χ^2 at 5 per cent level of significance for degree of freedom = 7, is 14.067. Table value of χ^2 at 1 per cent level of significane is 18.475.

Calculate value of χ^2 = 16.867 is higher than both table values, at 5 per cent level of significance and at 1 per cent level of significance. Hence differences in social disclosure practices of public sector undertaking in India are significant. Null hypothesis is rejected and alternative hypothesis is accepted.

Correlation Coefficient between Disclosures Index Number and Different Factors

The χ^2 analysis shows that there are significant differences in disclosure practices in public sector undertakings. Here it is a the question of inquiry that what factors are responsible for these differences? What are the reasons for differences in social disclosure index? To analyse above question, correlation coefficient between capital employed and DIN, value added and DIN, and ROI and DIN are calculated.

Calculated value of coefficient of correlation between capital employed and DIN (r_1), value added and DIN (r_2) and ROI and DIN (r_3) are 0.5325, 0.6281 and 0.6579 respectively.

r_1 = + 0.5325 show 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 per cent 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 per cent 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 workings have higher degree social disclosure practices.

r_3 is the correlation between ROI and disclosure index which is 0.6579. ROI is a 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 proves the same facts that 43.28 per cent changes in DIN are due to return on investment.

Conclusions and Suggestions

Overall social reporting position in public sector undertakings in India is satisfactory but many loss making public sector undertakings do not publish adequate social reports, Similarly, some companies, whose value added is not sufficient, do not publish adequate social disclosure.

Most of the public sector undertakings publish their social accounts on the model suggested by Abt. Associates. This model is the best for Indian conditions. Other social responsibility information should compulsorily be published in annual report. For this purpose, appropriate help can be taken from professional bodies. Accounting standard for social responsibility should be developed. Negative view of management perception about social responsibility disclosure should be changed. Qualified persons should be appointed at the executive post of public sector undertakings. This will help to make social accountability as an important part of corporate management.

Other non-monetary factors also effect on social disclosure practices. Some of these factors are given below-

1. Management - labour relationships
2. Management's perceptions about social disclosures
3. Quality of executive personnel
4. Government and public pressures
5. Requirement of law
6. Social environment of respective area.
7. Investor's thinking

All the above factors effect social disclosure practices. Every company especially the public sector undertakings should study all these factors before finalising 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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