A Review of Concept and Reporting of Non-Financial Initiatives of Business Organisations

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Abstract

India is witnessing transformation in non-financial reporting. The paper reviews changes in conception of CSR, trends in non-financial reporting and reporting of such initiatives in annual reports of companies. Conceptions of CSR since ancient times till recent developments were reviewed. Various frameworks for non-financial reporting in post liberalisation in India are reviewed. It was observed that companies undertake both mandatory and voluntary non-financial reporting.

Contribution to Body of Knowledge

The paper traces changes in conception and non-financial reporting of business organisations. Paper finds sufficient level of reporting and states that there is a need of compatibility amongst various reports which fall under non-financial reporting framework.

Keywords: Non-Financial Reporting; Corporate Social Responsibility
1. Introduction

Since ancient times, perception of business responsibilities encompassed both financial and non-financial dimensions in India. India has a long tradition of engaging in philanthropic programmes as a socially responsible business. Bhagavad-Gita, the great epic, emphasizes on righteous doing. Concept of corporate social responsibility (CSR) in India is present since the era of Vedas, Puranas, trusteeship initiatives, and welfare and community development activities in India in pre-liberalisation period. Post-liberalisation period is witnessing transformation in CSR performance of the business organisations through various formal and informal mechanisms.

At international level, formal studies related to corporate social responsibility were conducted around 1950. In early 1950’s & 60’s the literature was not heavily represented in CSR discourse. This time period witnessed evolution of formal concept of CSR (Carroll 1999). Corporate social responsibility was defined from numerous angles by Bowen (1953), Fredrick (1960), Davies (1973), Carroll (1991), Elkington (1997) and many others. CSR was termed as corporate social performance (Sethi, 1975), corporate citizenship (Maignan and Ferrell, 2000), public responsibility ((Preston and Post, 1975), corporate performance (Carroll, 1979), need of the base of core of ethical principles (Freeman, 1994), sustainable development (World Commission on Environment and Development, 1987), common good approach (Mahon and McGowan, 1991) and in many other ways.

Globalization is a driver for new developments of CSR. With increase in global business watchdogs (e.g. NGOs, Trusts) and in standards of business practice (including CSR) associated with, for example, the World Bank, the OECD and the UN Global Compact (Ruggie, 2002), CSR activities as well as its reporting have gained momentum. National level institutions and initiatives for non-financial activities and reporting have also been developed and incorporated in India.

Reporting of Non-Financial initiatives has progressed with the spread of globalization and transformation in legal, social, ethical and accounting framework regulating such reporting. Business Organizations operating in India are adopting a formal structure to report various social responsibility initiatives undertaken by them at periodical intervals. It is found that India has emerged as one of the top 10 Asian countries that are paying an ever-increasing significance towards Corporate Social Responsibility (CSR) disclosure. Indian firms are most transparent in terms of governance, policies and code of conduct. They also provide more information than most companies on issues relating to community impact and development. Disclosure on environmental issues is also relatively high (Asian Sustainability Rating, 2011).

According to KPMG survey in India, 31% of companies report on CSR performance, 71% report as per GRI guidelines. Out of the companies reporting, CSR initiatives, 16% companies have their own CSR strategy. 68% reporters’ measure CSR issues and 42% link social responsibility reporting with governance (KPMG survey, CRY Enclave, 2012)
Top drivers of trends in corporate responsibility in India are strengthening brand and ethical considerations (KPMG Survey, CRY Enclave, 2012). CSR benefits the company by improving its position in the opinion of stakeholders. CSR deals with different stakeholders, builds a positive public image, and meet customer demands (Gupta, 2007).

Present paper reviews various concepts of CSR and formal mechanism for CSR reporting. The paper also reviews transformation in reporting of non-financial business activities of selected companies in Hazira Belt at Surat, Gujarat.

Present paper is divided into five sections; section 1 provides introduction followed by a literature review. Next section states objectives and methodology of the paper followed by review of CSR concept and trends in CSR reporting. Section 4 explains the review of business responsibility reporting of selected companies. Paper concludes with summary and future direction for Non-Financial reporting.

2. Literature Review

Drucker maintained a simultaneous emphasis on Profit as well as welfare. It is not enough to do well; it must also do good.’ But in order to 'do good,' a business must first 'do well (Drucker, 1954). The business organisations should perform better and then undertake CSR activities.

Carroll (1991) describes CSR as a multi layered concept that can be differentiated into four interrelated aspects – economic, legal, ethical and philanthropic responsibilities. Carroll presents these different responsibilities as consecutive layers within a pyramid, such that “true” social responsibility requires the meeting of all four levels consecutively.

An ideal CSR has both ethical and philosophical dimensions, particularly in India where there exists a wide gap between sections of people in terms of income and standards as well as socio-economic status (Bajpai, 2001). Narayan Murthy (2004) stated, ‘social responsibility is to create maximum shareholders value working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment’.

In initial years there was little documentation of social responsibility initiatives in India. Since then there is a growing realization towards contribution to social activities globally with a desire to improve the immediate environment (Shinde, 2005). Focus today is on how to report than to whether to report. There are several positive outcomes attributed to CSR communication (Brown and Dacin, 1997; Sen and Bhattacharya, 2001).
To improve contribution of business organisations to CSR and to make the contribution effective, The Ministry of Corporate Affairs or MCA, in partnership with various chambers, members of corporations, and the Indian Institute of Corporate Affairs has established the National Foundation for Corporate Social Responsibility (NFCSR) to provide an environment for the corporate sector which shall enable them to work with the government, NGOs, etc., to ensure effective contributions to sustainable growth and development (NFCSR website).

Funding is required for undertaking CSR initiatives. Indian companies Act(1956) provides for contribution to charitable and other funds (which do not directly relate to the business of the company or the welfare of its employees). Such contribution can be made by a public company or a private company, being a subsidiary of a public company, for an aggregate amount upto Rs 50,000 or five per cent of its average net profit during the three financial years immediately preceding, whichever is greater. The new Companies Act, 2013 is also tapping the probable funding sources.

3. Objectives and Methodology

3.1. Objectives of the study are:

- To Review conception of Corporate Social Responsibility.
- To review changing landscape of non-profit reporting of selected companies.

4. Methodology

Extensive literature review was carried out to understand various conceptions of non-financial reporting. Trends in CSR reporting were also reviewed. Literature review was carried out through research papers published in various research journals, books and online publications.

Five large companies from Hazira belt were selected on the basis of convenience for the purpose of study. A qualitative analysis of various reports (including annual reports, CSR reports and other relevant reports) was undertaken to understand their CSR Initiatives and reporting, for financial year 2012-13.

5. Developments: CSR and CSR Reporting

5.1. Conception of CSR

Table 1 depicts the perceived meaning of CSR at different time periods by different researchers. An overview of definitional work has been undertaken earlier (Carroll 1999, 2008 and Jean-Pascal Gond and Jeremy Moon, 2011). Authors have explained CSR from different angles and dimensions. Following table states different conceptions about CSR since ancient times. Following Table integrates certain views on CSR as denoted from certain sources.
| Table No. 1: Different Conceptions of Corporate Social Responsibility |
|---------------------------------------------------------------|
| **Great Epics, Great Scholars-India** |

In the Indian context, the origin of CSR can be traced from Great Epics like the Puranas the Ramayana, the Bhagavad-Gita, Dasbodh and great scholars like Kautilya. Bhagvad Gita stressed that duty needs to be done. Kautilya stated that in happiness of his subject lies the happiness of the king; and in their welfare his welfare. Dasbodh prescribes socially responsible leadership, which is people oriented.

| **Carnegie (1889)** |

He believed that rich had the moral obligation to give away their fortunes and that personal wealth beyond the family’s needs should be regarded as trust fund for the benefit of the society.

| **Large Industrial Houses like TATA, BIRLA** |

Pre and post-independence period of India. Corporate Social Responsibility by Large Industrial Houses was carried out through stewardship or trusteeship.

| **Bowen (1953)** |

CSR refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society.

| **Friedman (1970)** |

There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

| **Caroll (1979)** |

The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.

| **Environment and Development/Earth Summit (1992)** |

Climate Change Convention, Sustainability initiative was agreed upon.

| **Frederick (1994)** |

Corporate social responsiveness refers to the capacity of a corporation to respond to social pressures.

| **World Business Council for Sustainable Development (2001)** |

Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.

| **Porter and Kramer (2006)** |

CSR is not a cost, a constraint or a charitable deed-it is a source of opportunity, innovation and competitive advantage.

| **Climate Change Conference (2007)** |

Growing environmental concerns led to stricter regulations related to environment protection for business across the world.

| **European Commission (2011)** |

The Commission defines corporate social responsibility as “the responsibility of enterprises for their impacts on society”. To fully meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders.”
Above table shows various conceptions and dimensions of CSR. Although CSR was always mentioned in India since ancient times, research initiatives and various studies have stated the meaning of CSR in more explicit words. Scope of CSR has also been affected by changing business environment. Environmental concerns have added environment dimension to CSR initiatives.

5.2. Non-Financial Responsibility Reporting

Following table shows trends in non-financial reporting in India in post liberalisation period. Table denotes various voluntary and mandatory frameworks for the reporting.

| Corporate Social Responsibility Reporting | Voluntary Reporting through Annual Reports and separate Corporate Social Responsibility Reports by companies in India |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Un global compact (2000)                 | Compact since 2000, The Global Compact Society in India since 2003, The main objective is to provide a forum for Indian companies and organizations to exchange experiences, network and work together on activities related to Corporate Social Responsibility (CSR) and the Global Compact |
| SEBI, Clause 49 of the Listing Agreement  | Has certain mandatory and non-mandatory disclosures. Providing the annual report by companies falls under the mandatory disclosure but in India the concept of submitting a Sustainability report has not yet been introduced. |
| GRI reporting (1997, USA)                 | The Global Reporting Initiative (GRI) promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to a sustainable global economy. G-4 guidelines for reporting issued (2013) |
| Reserve Bank of India, (2007)            | RBI, being the regulator of banks and banking operations addressed the scheduled commercial banks on CSR, sustainable development and the non-financing reporting role of banks. |
| Business Responsibility Reporting (2012) | The requirement to include BR Reports as part of the Annual Reports shall be mandatory for top 100 listed entities based on market capitalisation at BSE and NSE as on March 31, 2012. |
| Department of Public Enterprise’s new CSR guidelines (2013) | Guidelines are for all Central Public Sector Enterprises (CPSEs) and include a dedicated section on sustainability reporting and disclosure. |
| MCA-guidelines, business reporting framework, 2009, 2011 | The ‘National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business’. These guidelines contain comprehensive principles to be adopted by companies as part of their business practices and a structured business responsibility reporting. |
| Use of Social Media                      | Organizations have understood that in today’s technology savvy world it is better to interact with their investors on a bigger and wider platform so social tools like Blogs of organizations are used to provide information about company. |

Above table shows the trend in Non-financial reporting of companies. Begun as a voluntary reporting initiative to exhibit CSR involvement by the companies has become a mandatory requirement. The level of mandatory non-financial reporting is different for different types of companies. Such reporting has become necessary for the
business organisations. Need to ensure social development, economic growth and healthy environment on one side and ensure efficient survival of the business on the other side has led to need of non-financial reporting.

5.3. Review of Non-Financial Reporting of Selected Companies

Annual reports of the selected companies were reviewed for non-financial reporting for the year 2012-13. Selected companies include Reliance, Larsen and Toubro, ONGC, NTPC, and Gail. Reliance, Larsen and Toubro and Reliance are private limited companies. ONGC, NTPC AND Gail are public limited companies. All the companies are amongst the top 100 companies on BSE and NSE. The Business responsibility reports were based on the prescribed format as per MCA Guidelines, 2011.

All the reports contained CSR initiatives, CG disclosure and Business Responsibility reports. CSR and CG reporting of the above companies was well drafted and as per regulatory framework in India. Qualitative analysis of the annual reports of the selected companies showed that these reports contained required details about corporate social responsibility, corporate governance and business responsibility reporting.

Above review about non-financial reporting depicts that:

- Annual reports explained corporate social responsibility initiatives of selected companies and various trusts and foundations established by them to execute socially responsible activities.
- These annual reports also contained details about corporate governance scenario in these companies which contained various committees of board and details about these committees, number of meetings held of these committees and details about the directors of the company.
- As these companies were amongst the top hundred companies at BSE and NSE, these companies also published business reporting framework for the first time.
- Non-financial disclosures also included disclosures about different awards bagged by these companies related to socially responsible initiatives, corporate governance and green initiatives.
- Other than these details, all the companies also published sustainability reports as per Triple Bottom Line reporting based on three dimensions of economic, social and environmental reporting.

6. Conclusion and Future Direction

India is well aware of the changing conception of corporate social responsibility, changing dimensions of social responsibilities and is one of the leading nations in developing regulatory framework for non-financial reporting. Since two years India is the happening nation for implementation of various frameworks for non-financial reporting. The adoption of G-4 initiatives for sustainability reporting, Business responsibility reporting for the top 100 companies, mandatory reporting for central public enterprises and implementation of voluntary guidelines issued by
MCA are changing face of non-financial reporting in India.

The new companies Act, 2013 has advocated formation of The CSR policy of the company with specific modalities of execution in the areas chosen and Implementation schedules for the same. The act is also expected to demand 2% CSR spending from specific companies. Companies can also collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts would qualify for computing the CSR spending. All companies falling under the provision of section 135 (1) of the Act shall report the details of their CSR initiatives in the directors’ report and in the company’s website.

Thus undertaking both voluntary and mandatory socially responsible initiatives, reporting of these initiatives and funding for these initiatives are focus point of non-financial reporting reforms in India. Non-financial reporting is essential for companies to gain advantage in competitive environment. After reviewing the non-financial reports, there is a need of compatibility amongst various non-financial reports for the companies.

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