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CSR REPORTING IN INDIA: POSSIBILITIES AND CHALLENGES

Maya M*

Abstract

Corporate Social Responsibility (CSR) has become a buzzword in the corporate world. According to the provisions of the Companies Act 2013, it is mandatory for corporate with a turnover of 1000 cr/ net worth of 500 cr to spend two percent of their average profits f the last three financial years towards CSR. Apart from this, most companies today have voluntary CSR projects. Apart from meeting the commitment to the society, CSR is also considered as a way to enhance the reputation and competitiveness of the company. In this context, CSR reporting practices becomes very important. This paper tries to locate the significance of CSR reporting in contemporary society by looking at how the concept of charity or philanthropy have transformed to the responsibility of a company over a period of time. CSR reporting is considered very important as it ensures transparency and accountability of the company. In order to build stakeholders trust companies disclose the details of CSR initiatives in their annual reports or they bring about separate CSR reports or sustainability reports and some companies use social media platform to discuss CSR agenda. For the top 100 listed companies in India, as per Securities Exchange Board of India (SEBI) it is mandatory to have CSR disclosure based on National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVG-SEE) by the Ministry of Corporate Affairs. However there exist different frameworks for CSR reporting. Based on 'India Corporate Responsibility Reporting Survey 2013' conducted by KPMG, an attempt has been made to map the trends of CSR reporting in India. The aim of the paper is to initiate some discussions regarding future orientation for quality CSR reporting practices.

Key words: Corporate Social Responsibility, CSR reporting, GIR, NVG-SEE, integrated reporting.

Assistant Professor, Department of Sociology, Christ University, Bangalore -560029.
E-mail: maya.m@christuniversity.in

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Introduction

Corporate Social Responsibility can be defined as a concept that deals with the economic, legal, ethical and philanthropic responsibilities of business (Carroll, 1991). The idea of giving back to society, which was perceived as charity or philanthropy in the 1950s has now been recognized as a responsibility. It is based on the principles of social contract (Donaldson, 1982, Donaldson & Dunfee, 1999) that as business operates in a society and benefits from society it should have some wider responsibilities to society. The spread of NGO activism raised consciousness about key issues of human rights, labour issues, and environmental damage encouraged a sense of responsible investment among the stakeholders. This brought in result based CSR initiatives as the cornerstone of any business. Today CSR is being considered as a vital component determining the sustainability of a company. In order to build stakeholders trust companies disclose the details of CSR initiatives in their annual reports or they bring about separate CSR reports or sustainability reports and some companies use social media platform to discuss CSR agenda. For the top 100 listed companies in India, as per Securities Exchange Board of India (SEBI) it is mandatory to have CSR disclosure based on National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVG-SEE) by the Ministry of Corporate Affairs. However there exist different frameworks for CSR reporting. Before analyzing the trends in CSR reporting in India, it is necessary to understand how the concept of CSR evolved over a period of time.

Evolution of the concept of CSR

During the period prior to the 1950s, charity was considered as a co-existing virtue for rich merchants who wanted enhance their reputation in society. The humanistic tradition which spread after the renaissance period helped made charity and philanthropy popular among the business community in the west. It was a period of private initiatives for public good as it is clearly evident from the dictum of Andrew Carnegie 'The Disgrace of Dying Rich' (Steiner, 2009). The influence of Social Darwinism made businessmen like Carneige to believe in using fortunes for grand purposes like building public halls, helping universities and the like than having a pro poor attitude or employee friendly policies.

However, the usage of money for charity and philanthropy came under severe criticism during the late 19th and early 20th centuries. The question was about the right of managers or top official to use the profit for gaining personal acclaim. The charters signed by the corporations with the state had a clear provision that the profit has to be shared among the shareholders. The manager has to be considered as agents of a company which is committed to its shareholders. People had their reservations about market's ability to protect human welfare. The doctrine of laissez faire believed that if business is successful, it will help people to prosper and the aggregate effect would eradicate social ills.

Howard R Bowen's (1953) writings have inspired the business leaders to think about the social responsibilities of businessmen beyond economic aspects. The civil rights movement, human rights movement and environmental movements during 1960s and 1970s have encouraged the business community to think about a greater role in society in order to ensure its legitimate status. The US Committee for Economic Development (1971) provided a platform for business leaders to come together and evolve a framework for meeting societal expectations.

Conservative economists like Milton Friedman (1970) emphasized on the theory that the sole responsibility of a corporation is to focus on optimizing its profits. Any investment for social projects will have its effect on the cost of the product which is against fair market principles. In this approach, managers are fiduciary agents of the owner's of company's capital and the role of a manager is to efficiently perform the fiduciary responsibilities in compliance with the law and moral customs of the state.

It was through the writings of Freeman (1984) that the concept of stakeholder became vital in any discourse on CSR. He discussed the obligation of corporations to the constituent groups in society other than shareholders. The wider definition of stakeholder encompasses any person, organization, social group or society at large that has a legitimate interest in the business. It reiterates the moral responsibility of business to the community and environment. The rationale for identification of risks/issues to be addressed by the company and the socially oriented initiatives through CSR can be better explained using the stakeholder framework.

The idea of corporate citizenship (Davis, 1973) or business citizenship (Wood & Logsdon, 2001) considers a firm as an individual. It denotes a company's responsibility towards community and environment in which it operates. Companies can express their citizenship in different ways. It can be by the voluntary reduction of emission rates; contribution to social welfare programmes or educational purposes. As it is pointed out by Davis (1973), social responsibility begins where law ends. One cannot enforce everything through laws. The moral commitment of the company legitimizes its voluntary initiatives. Currently this concept has been used very widely and often equated with CSR.

The recognition of economic/ business entities as a vital agency to contribute to social welfare began during the post second world war period. During the decades 60s and 70s, there was a growing awareness on the growing inequalities, increasing poverty, human rights violations and environmental hazards as risks of reckless development and business models. The process of globalization further aggravated many social risks or sustainability megaforces (KPMG International, 2012) which require appropriate strategies of intervention by all agencies of society including the business. The ten sustainability megaforces identified by KPMG international include climate change, deforestation, decline of ecosystem, food security, urbanization, population growth, disparity in wealth, water scarcity, energy & fuel deficiency and material resource scarcity. All these sustainable megaforces will have serious impact for business. This understanding provides a further legitimate claim for the business to integrate the CSR concept into their core business.

As the modern day business began facing challenges of globalization there emerged a need to have result based CSR management practices to address increasing environmental concerns and the needs of the poor (ESCAP, 2009). The growing level of consciousness among stakeholders, especially among the consumers was a major force for companies to consider CSR in a very serious manner. Porter and Kramer (2011) identify four main motives for business to incorporate CSR viz. moral obligation, sustainability, licence to operate and recognition. Whatever be the motive(s), today, CSR has turned to an essential component of any business and hence CSR reporting.

CSR Reporting

CSR or sustainability reporting refers to the planning, measurement and appraisal of CSR initiatives (Masato Abe, 2009). It represents the managerial effort to measure, monitor and evaluate a company's CSR performance. It has become a mainstream practice as it helps the companies to engage effectively with stakeholders, maintain reputation and enhance competitiveness. Carrol and Beiler (1975) trace the root of CSR reporting to the social audit and non-financial accounting in the 1940s. According to them, CSR reporting is a gradual evolutionary process as companies began focusing on their commitment to environmental pollution/depletion, climate change, human rights violations, labour issues and so on. The popularity of Triple bottom line or three Ps (Planet, People and Profit) during the 1990s have popularized the reporting framework by incorporating social, economic and environmental impacts of business.

Today, there exist different CSR reporting frameworks both at the national and international level. The most important international frameworks are the Global Reporting Initiative (GRI) and Integrated Reporting (IR). In India, we have National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVG-SEE); S & P BSE- GREENEX and BSE Carbonex.

International Reporting Frameworks

The most common reporting framework adopted by companies across the globe is Global Reporting Initiative (GRI). It was established in Boston in 1997. Its roots can be traced back to the Coalition for Environmentally Responsible Economies (CERES) in US where an attempt has been made to bring about a framework for environmental reporting. CERES initiated a GRI project department so that there would be a mechanism to ensure accountability that companies comply with the CERES principles. CERES had a multi-stakeholder approach and based on the suggestions from the steering committee of stakeholders in 1998, they have decided to enlarge its canvas by incorporating social, economic and governance issues. Thus GRI guidance became a sustainability reporting framework and in 2000, GRI became an independent body and launched its first generation of guidelines. In 2002, United Nations Environment Programme (UNEP) joined GRI. Gradually GRI build alliance with UN Global Compact, OECD and so on. In 2013, GRI released its fourth generation (G4) guidelines.

The G4 guidelines have two sections. The first part deals with reporting principles and standard disclosure criteria and the second part is the implementation manual. It has developed principles to ensure the content and quality of reporting. Apart from standard disclosures on strategy, governance, ethics, integrity and stakeholder engagement, GRI also ensures specific standard disclosures on management approach with economic, environmental and social indicators. It gives special emphasis on labour practices and decent work; human rights and product responsibility.

Integrated Reporting (IR) principles are associated with the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard settlers, accounting professionals and NGOs. This framework wants to organize the strategy, governance, performance and prospects of companies in a clear, concise and comparable format. The IIRC began a pilot programme in 2011 to accelerate the evolution of corporate reporting by reflecting on the developments in financial governance, management's approach and sustainability reporting. Integrated reporting is an emerging and evolving trend in corporate reporting and it builds on sustainability reporting.

Indian Frameworks

In India, we have National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVG-SEE) by the Ministry of Corporate Affairs (2011). The National Voluntary Guidelines encompass nine principles and related core elements and identified areas where responsible practices need to be adopted. The reporting framework for Business Responsibility (BR) reports provide a standard disclosure template which can be used by businesses to report on their performance in these identified areas.

The Business Responsibility Report framework has three sections. Part A include basic details of the business, economic and financial data, management's commitment, goals and targets. Part Binclude the basic parameters on which business may report their performance by taking each of the nine principles and Part C include disclosure on negative consequences of the operations of the company and also a brief on the goals and targets in the area of social, environmental and economic responsibilities of business during the reporting period.

S&P BSE-GREENEX Index is an outcome of the collaborative initiative of gTrade Carbon Ex Ratings Services Private Limited (gTrade), the BSE and the Indian Institute of Management, Ahmedabad. The mission of the company is to create viable market based solutions for industries, investors and governments, to promote energy efficient practices and encourage impact investing in economically and environmentally sustainable businesses. Index includes the top 25 companies which are good in terms of Carbon Emissions, Free-Float Market Capitalization and Turnover.

BSE Carbonex is the first carbon-based thematic index in the country launched by the Bombay Stock Exchange in November 2012. It has the aim of creating a benchmark, and increasing awareness about the risks posed by climate change. It also aims to help promote active disclosure of non-financial information and provide investors with a reliable benchmark for the low carbon strategies of their companies.

In December 2012, Securities Exchange Board of India (SEBI) issued its mandate, through Clause 55 of the listing agreement with stock exchanges in India, making Business Responsibility Reporting compulsory for top 100 listed companies. The Department of Public enterprise (DPE) has also asked the central public sector enterprises to have CSR reporting. The Companies Act, 2013 considers CSR as a mandatory agenda item at the Board leveland demands the companies to report on their CSR policy, governance and initiatives along with CSR budget utilized.

Trends in CSR reporting in India

Based on the 'India Corporate Responsibility Reporting Survey 2013' conducted by KPMG International, the major trends in CSR reporting in India, most of Indian companies have some amount of CSR disclosure and it is more prevalent among the IT companies and it is very low among the pharmaceutical companies. Most companies have CSR disclosure in their annual reports although a few are following GRI framework. The usage of social media to discuss CSR agenda is a means to have better stakeholder engagement. Those companies having separate CSR reporting have also resorted to have used external assurance mechanisms for the enhanced credibility of the information. Companies have a better disclosure on risks and opportunities but disclosure on supply chain social and environmental impacts is very low. The question of accountability and ownership of CR management is another grey area. A better discussion on the negative sides of implementation is another area requiring more focus.

Conclusion

A closure look at the emerging trends of CSR reporting shows that except for the top 100 listed companies, there is a lack of coherence in the way CSR is been reported in the country. It has differences in terms of area of operation also. There should be debates on ensuring the quality of the reporting also. Companies Act 2013 demands for the cooperation of NGOs and Business for better CSR implementation through project mode. It requires more accuracy in planning, monitoring and evaluation. When we have third party involvement, documentation has to sharp. Hence, demand a systematic and clear reporting format. We need to have a relook at the existing formats to ensure that the companies might move towards an integrative reporting in the near future so as to keep up the image of Global Corporate Citizenship.

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