

## Invited Article

# Corporate Social & Environmental Disclosures & Reporting

**C. V. Baxi & Rupamanjari Sinha Ray**

---

*Corporate social and environmental reporting has received importance and attention in recent years as a part of sustainable development process across the world. In India the stand-alone reporting practices exist, but with limited content and information. Professional companies are more inclined towards reporting their efforts rather than focussing on impact on the society. Family business's corporate social responsibility depends on the family's core emotional values and therefore does not focus on the reporting standards and disclosure with proper quantitative measures to look at the impact. There is an urgent need to develop a transparent reporting standard in India as a part of a company's accountability towards all its stakeholders, argues the paper.*

**C V Baxi** is Professor & Acting Director of Management Development Institute, Gurgaon. E mail: cvbaxi@mdi.ac.in. **Rupamanjari Sinha Ray** is Faculty Member (Economics) in the same institute. E mail: rupamanjari@mdi.ac.in

## Background

The theme of corporate social responsibility is rather nascent in the Indian context as in the most developing economies. The literature on the subject began in the 1950s and the debate focused on whether the corporations should engage in social activities for public welfare. The debate in the 1970s was restricted to the separate roles of welfare provision by the government and single minded pursuit of supernormal profit by the market players. This view however, focused more on shareholder wealth creation rather than the stakeholder value creation. Until the late 1990s the industry in the Western markets focused more on philanthropy rather than social responsibility. It is only in the 1990s when the countries in the North began to move towards privatization and corporate restructuring social performance was given some emphasis. Since the beginning of the 21<sup>st</sup> century the focus has shifted to a more comprehensive concept of corporate sustainability.

The subtle difference between corporate environmental reporting and

environmental reporting stems from the fact that the former is voluntary in nature while the latter is mandatory<sup>1</sup>. Across the globe corporate environmental reporting has been voluntary in nature. Netherlands and Denmark had introduced mandatory disclosures way back in 2001. In Europe EMAS (Eco-Management and Audit Scheme), had been voluntary so far. EMAS is a voluntary body designed to promote environmental compliance standard of the companies. It was established by European Regulation 1836/93, which was later replaced by Council Regulation 761/101. EMAS' main objective is to reward those companies which go beyond the minimum legal compliance and continuously improve their environmental performance. Self-reporting is required regularly which is reviewed by an environmental verifier delivering the EMAS certification.

Most of the listed Indian companies do not have a stand-alone report. These reports are qualitative rather than quantitative in nature. The environmental protection parameters are exposed in detail relating it to the vision, mission and objectives of the company. But financial estimates to follow the stipulated environmental guidelines of the company are never revealed in these reports. The quantitative measures of reducing solid wastes, air and water pollution, and carbon emissions are usually not described in the reports. The reports lack in systematic formulation of Environmental Management System.

<sup>1</sup> This differentiation is as per IIIIEE Report (2002)

Environmental policy is qualitatively designed with no environmental targets in a year. Environmental Impact Assessment of different projects is not accounted for in these reports.

**EMAS is supported by the environmental regulators and companies as well.**

Environmental management has become important for the companies whose prime objective is to minimize environmental degradation by the companies in various ways like reduction in waste generation, energy consumption and efficient use of resources. This in turn will bring down the cost of the companies. Companies may gain competitive edge over time by a more effective system of environmental management. Thus EMAS is supported by the environmental regulators and companies as well. EMS must satisfy the condition laid down under International Standard BS EN ISO 14001. EMS provides a company with a framework for identifying, evaluating, managing and improving its environmental performance. All internal stakeholders like employees and external stakeholders like contractors, suppliers know their roles and responsibilities to achieve the desired compliance level.

The proposed EMAS modification is as follows.

- **Reinforced environmental reporting** – Reporting on core environmental performance parameters has


to be mandatory. The areas for core competency are selected as energy efficiency, material resource efficiency, waste emissions and biodiversity/ land use.

- **Guidance on best practice in environmental management** – The Commission initiates the development of reference manual for best practice in environmental management. The use of this manual is voluntary but the Commission would encourage the use of these guidelines.

With the introduction of GRI (Global Reporting Initiative) in 2000, the era of sustainability reports were introduced which has set certain guidelines to

social, environmental and financial reporting of many companies. Eight Indian companies follow GRI guidelines. Companies are now increasingly adopting the GRI framework of reporting standard. Table 1 shows that the evaluation and auditing are carried out by a third party following GRI standards. For some companies the entire reporting standard is checked by the third party. Technically the reporting practices have improved in European countries. But the efficacy of public accountability of major corporations is yet left for improvement. A still persisting defect is the empowerment of the stakeholders, who would use the reports to hold corporate management accountable and thereby influencing their decision-making process.

**Table 1: Indian Company Reports Published in 2008 Following GRI Guidelines**

 Name Organization	Guidelines	Application Level	Status
ABN AMRO INDIA	G3		Undeclared
Infosys Technologies	G3	A+	GRI-checked
Infosys Technologies Ltd.	G3	A+	Third-party-checked
ITC Limited	G3	A+	Third-party-checked
Jubilant Organysos Limited	G3	A+	GRI-checked
MSPL Limited	G2	IA	GRI-checked
Reliance Industries Ltd	G3	A+	GRI-checked
Shree Cement Ltd	G3	A+	GRI-checked
Tata Consultancy Services	G3	A	GRI-checked
The Mahindra Group	G3	A+	GRI-checked

Source: Global Reporting Initiative

Website: <http://www.globalreporting.org/GRIReports/> accessed on October 2008.

Companies are accountable to the shareholders who are the capital providers. Existence of the company depends on its accountability towards its other stakeholders including employers, customers and suppliers. (Owen 2003). The above accountability criteria will make reporting mandatory in nature where stakeholders at all levels are involved and the independence of the managers to reveal such reports will be curbed. Another aspect of such reporting is whether the process of reporting should be voluntary or mandatory in nature.

Absence of systematic CSR theories had led to lack of substantive and systematic conclusions (Ullmann 1985). Three broad groups of theories have emerged in empirical research with some theoretical context: decision-usefulness studies; economic theory studies; and social and political theory studies. In their study on corporate environmental reporting Malarvizhi and Yadav (2008) are hopeful that despite scanty reporting on environmental costs and benefits, future prospects of such reporting are high in a growing environmentally aware economy like India. Role of corporate accountants are limited in environmental management due to lack of reporting guidelines and this area needs to be addressed by the policy makers such that the companies may report fully and regularly. The issues that have to be included and that need to be left out from the reports are not properly identified by the companies. This is one reason why companies do not produce an efficient reporting standard.

OECD (2006) study on environmental compliance and enforcement in India observed that the environmental policy by Central Pollution Control Board and implementation issues by State Pollution Control Boards have created a lot of discrepancies and variation across the states. Also the self-monitored information and self-reporting by the companies have provided enough discretionary power to mould the standards of environmental disclosures according to the compliance standards. Therefore it has been recommended that self-monitored reports can be used as evidence in courts in large scale by the boards which automatically would lead to good and standardized reporting structure by the companies.

### **Objectives of Disclosure & Reporting**

The main objectives of social and environmental disclosures and reporting by corporations in general are:

- 1 Gain legitimacy from the external stakeholders
- 2 Demonstrate transparency and accountability dimensions of good corporate governance
- 3 Enhance and sustain corporate credibility and reputation
- 4 Create stakeholder value in the long run
- 5 Inform the policy makers and regulators of the active role of the modern corporation in CSR

- 6 Promote brand equity and market share of the company
  - 7 Establish linkage between corporate social & financial performance
  - 8 Participate in international business with globally compatible business practices focusing on stakeholder engagement
  - 9 Develop organizational capacity-knowledge, skills, and attitudes for promoting socially responsive business practices
  - 10 Comply with global environmental and sustainability standards
- Basic Questions**

At what point of the organization's life cycle a corporate should decide to undertake and disclose social and environmental performance? Until the growth stage of a business (depending on whether the company is a part of an already existing business or a new entrant in the market) perhaps there may not be any worthwhile CSR and therefore not much thought is given to disclosures and reporting. Second, when company is in the stable phase of growth stage there are prospects of introducing CSR activities and making their progress public at least on an annual basis. Third, is the transition from growth to maturity stage when the company has already established a market position and is even participating in the global arena and hence, is in a position to devote more time, strategies and resources towards CSR and environmental management. It is at this stage that the management has

to decide how much they should focus on these activities and how to make their schemes and outcomes public so that stakeholder education and eventually their participation become feasible. If during this phase a company is able to meaningfully demonstrate a link between corporate social and financial performance both shareholder and stakeholder value can be improved. Fourth, if the company degenerates into saturation and decline, then it has not been able to establish a link between CSR and business performance as a means to achieve competitive advantage. Only if there is the integration between CSR practice and corporate policy a company is likely to be socially and environmentally responsive.

**Only if there is the integration between CSR practice and corporate policy a company is likely to be socially and environmentally responsive.**

What should be the content of reporting to the public? Usually the corporations mandated by laws to disclose the technical aspects of environment have a well defined set of parameters for reporting and so it is a matter of sheer compliance. But those corporations who undertake social activities in addition to the mandated environmental performance standards need to decide on the scope and content of reporting. This is a grey area because the social activities are a voluntary exercise while environmental activities are mandated by laws of the land. While

there is an audit and technical inspection procedure for environmental performance there are neither social audits nor any standard third party verification process of the social aspects of corporate performance. This dichotomy complicates the issue of scope and content of corporate social and environmental reporting. Yet another issue is the strategic intent of reporting by the corporations. Depending upon several factors such as ownership companies may or may not decide to disclose certain aspects. For instance, in most such disclosures in the last two decades in India there is more focus (within the limited information provided) on the CSR outputs rather than CSR outcomes.

**Often the range and magnitude of both voluntary and mandated disclosures tend to be associated directly with the location of industries.**

The focus on CSR outputs indicate that the companies have difficulties in evolving CSR agenda; problems in developing core competence; inadequate experience of stakeholder engagement; and lack of procedures for integrating social and financial information system; among others. Family business in India did for the best part of their first and second generations philanthropic activities and since last few decades have made a transition towards CSR and more recently towards sustainability. The focus on outputs also indicates repetitive CSR activities and therefore an absence of product and service innovation. This

focus also represents a preponderance of budget driven CSR rather than market or competition driven CSR practices.

Companies which are a part of the established group of business are more likely to undertake CSR and adopt appropriate disclosure practices. Already a set of best practices are available and new entrants from within the same ownership group may be in a better position to adopt the required reporting practices. Also when there are joint ventures/strategic alliances and or partnerships in several key result areas of business companies are likely to adopt relevant disclosure practices to seek and nurture a competitive advantage. Often the range and magnitude of both voluntary and mandated disclosures tend to be associated directly with the location of industries. Therefore, both the nature of business and actual location of a business are very critical drivers of corporate social and environmental reporting practices.

We may also suggest, based on the more recent examples of the public and private sector companies in India, that the corporations who have introduced formal departments and procedures for undertaking and extending CSR into their various projects are more likely to adopt regular reporting practices and they may over a period of time develop a diverse range of sources of reporting media. This is so as some corporations have posted senior personnel in the CSR divisions and ensured certain institutional resource commitment for a longer term CSR and sustainability

strategy. Corporations which are regularly monitoring the relative progress of CSR activities are more likely to adopt appropriate reporting practices. Similarly those companies which have an urge to introduce innovations in their business are more likely to be in search for realistic and even aggressive disclosure practices. Corporations investing in manpower and R & D and /or technology transfer are more likely to adopt the best practices in regard to CSR reporting. Again corporations which have a greater degree of legal compliance and also better system of corporate governance are likely to follow appropriate reporting practices. These companies are likely to utilize a full range of dissemination options such as websites, video films, CDs, annual reports, Chairman's statement at the AGM, booklets, and other publicity material.

#### **ITC's Triple Bottom Line Disclosure**

ITC is one of the leading Indian companies with diversified products and services in FMCG, Hotels, Paperboards and Packaging, Agri-business, and Information Technology sectors. The company has a market capitalization of nearly US \$ 19 billion and a turnover of over US \$5 billion. Every year ITC's sustainability report provides the stakeholders with details of performance on Triple Bottom Line basis. The authenticity of their performance is certified by Ernst & Young. The Triple Bottom Line consists of Economic, Environmental and Social Performance Reporting of the company.

**The crux of ITC's Triple Bottom Line performance reporting strategy is competitiveness.**

ITC is one of the pioneering companies in producing significant environmental impact through their various initiatives. The crux of their Triple Bottom Line performance reporting strategy is competitiveness. The company realizes the need for maintaining a competitive edge in the global context. This has led to the principle of utmost customer satisfaction as consumers are integrated to a variety of products across the globe. Thus competitive edge requires maintenance of international standards. Secondly, ITC's sustainability report also indicates the emphasis on consistent environmental performance by ITC. They have reported to maintain "Water Positive" parameter for the last six years and "Carbon Positive" parameter for the last three years. It has also been evident from the report that ITC is trying to move towards the path of "A Zero Solid Waste Corporation" title. The objective of the company, as stated in their disclosure report, has been a commitment to move positively beyond the compliance standards. Thirdly, their report also supports the claim to provide a conducive environment for their workers' productivity through labour practices and decent work environment. Under social performance ITC's disclosure report not only states the social responsibilities of the company towards its internal stakeholders but also states its various roles in the social uplift of its external stakeholders. One such example is the

E-governance scheme called E-Choupal. This programme has set an example to be followed by other firms.

ITC's sustainability reports are annual and states the Triple Bottom Line performance of the company in a particular year. The annual report for the fiscal year 2007-08 has been published recently which is the fifth in a row. The Global Reporting Initiatives (GRI) G3 guidelines and methodologies are adopted. The report contains detailed measures of energy consumption, rainwater harvesting, solid waste disposal and a yearly comparison. The report focuses on the performance of all major business units including FMCG sector, Hotels, Agri-Business, Paper & Packaging, Lifestyle Retailing & others and subsidiaries that include the IT sector also. Economic performance reporting is based on their annual financial statements, which are prepared in accordance with the Companies Act, 1956 and audited by Ferguson & Sons. Environmental and safety parameters are collected from actual operating data, which is maintained by the various business units while the social responsibility data is collected on-site.

The contents of the report are categorized under the following heads:

- Chairman's Statement: ITC's vision and strategy
- ITC: Organizational Profile
- Certifications, Honours and Awards
- Report Parameters

- Governance, Commitments & Engagements
- ITC's Triple Bottom Line
  - Economic Performance
  - Environmental Performance
  - Social performance: responsibility towards both internal and external stakeholders and a broader roadmap for society's welfare and improvement that also includes commitment towards product responsibility
- GRI Index
- Statement from Ernst & Young
- Self declaration on application level

The entire governance of the Triple Bottom Line involves the stakeholders' participation. The report states "ITC'S Corporate Governance Policy lays down the roles and responsibilities of the various entities in relation to risk management. A range of responsibilities, from strategic to the operational, is specified in the Governance Policy". Shareholders are addressed by the Chairman in an open house to clarify doubts on the economic performance in the Annual General Meeting every year. ITC's web portal provided the shareholders with comprehensive and necessary information in an exclusive section on 'Shareholder Value'. Apart from the portal, there is an Investor Service Centre which is ISO 9001:2000 Certified. The report claims that they provide high quality service to the investors.

Customers' needs are also taken into consideration while employing several innovative market survey apparatus and prompt action on complaints lodged by customers. Such statements are abstract and qualitative rather than measuring the degree and extent of such customer service. However, report on product responsibility contains certain effective and qualitative efforts such as quality certification, product labelling and information to ensure customer safety. These are given in detail. As far as the society's welfare in a broader sense is concerned, measures of improvements through different social programs are reported and analyzed through the use of bar charts and some data analysis on the coverage.

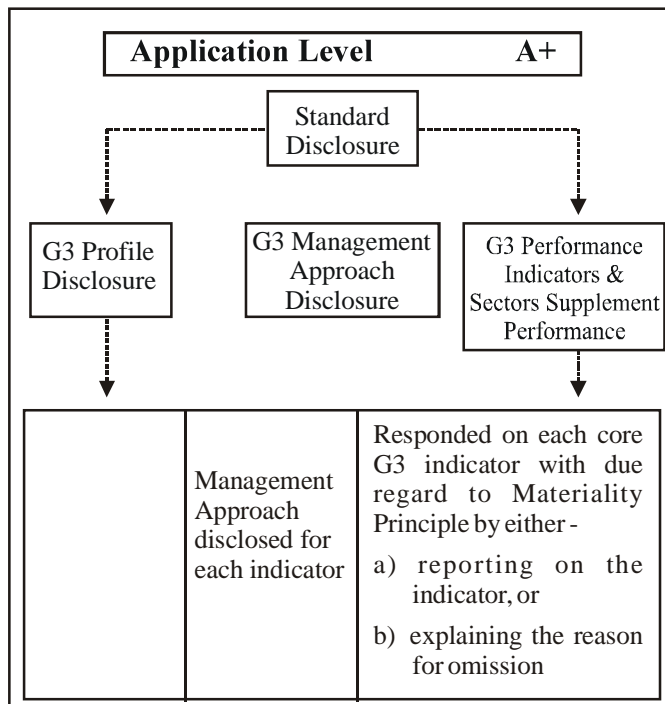
briefly depicted in fig.1. In a nutshell, ITC's reporting has been by far one of the most efficient social and environmental disclosure standard. It is rather an all inclusive CSR reporting satisfying stakeholders at different levels. The inclusion of Chairman's Statement in sustainability reporting is a strategic step to strengthen their brand equity.

**ITC's reporting has been by far one of the most efficient social and environmental disclosure standard.**

Most CSR and environmental reporting are deficient in terms of explaining the extent of catering to the

The company's sustainability report is never completely disclosed without the certification of the verifying authority. The statement of certification of Ernst & Young had verified and praised the efforts of ITC for adopting the GRI G3 guidelines to disclose their CSR and environmental activities. The verifying company had also nullified any possibility of ITC being called as a company with narrow CSR and poor Triple Bottom Line performance standard. The reporting standard is graded A+ (the best standard) which is

Fig 1: Grading System under GRI for ITC



Source: ITC's Sustainability Report 2008

actual demand for CSR. In terms of environmental reporting ITC has not only catered to the immediate needs of various environmental protection including from global warming, but has tried to move beyond the compliance standards. However, as far as the social reporting standard is concerned ITC is not completely successful in disclosing the extent of satisfying the demand needs.

**ITC is not completely successful in disclosing the extent of satisfying the demand needs.**

#### **Larsen & Toubro**

Larsen & Toubro is India's largest engineering and construction company which also deals in electrical, electronics and IT. Primarily the company caters to four sectors - engineering and construction, cement, electronics and construction equipment. Construction division of the company is L&T's engineering core. L&T has integrated its strengths in basic and detailed engineering, process technology, project management etc. The company has joint ventures with world leaders and has 30 offices. It has a large technology base and pool of experienced personnel.

The reporting on CSR is given on their website where it is stated clearly that CSR initiatives are part of their corporate philosophy of commitment towards social responsibility. In the Director's Annual Report on the company's performance CSR reporting has not been included. It is also not published as a stand-alone

report. However, report on environmental responsibility has found place in the Director's Annual Report where issues like sustainable development, global warming and ozone depletion have been addressed. Energy Conservation and use has been reported in details in the Director's Annual Report.

The CSR reporting in L&T's website consists of separate outlines in the following areas:

- **Prayas:** Prayas a trust formed by the spouses of Engineering Construction and Contracts (ECC) employees in Chennai to help the less privileged people of the society in terms of providing, food, clothing and rehabilitation as and when required.
- **Painting Gallery:** ECC's Convention Centre has a great collection of 187 works of art created by a contemporary Indian artist as part of their CSR activity to preserve and foster art & culture.
- **Rehabilitation Efforts:** During Orissa, Gujarat and Bhutan cyclones ECC had provided shelter to the workforce including its employees and contractors' men and also provided relief to those people who became homeless. The company played a vital role in assistance during the earthquake in Gujarat. A multi skilled team of engineers was sent to rescue and relief operations.
- **Free Eye Screening Camp by L & T:** The beneficiaries of this scheme in Kancheepuram and neighbouring

villages exceeded 600 including surgical activities free of cost at Pondichery. However this has a description of only one such eye camp in one small part of the country. This proves that CSR schemes are rather at their initial stage for the company.

**L&T stands at the initial stages of implementation of CSR.**

The CSR Agenda of the company is not properly defined. As compared with efforts of another professional company ITC, L&T stands at the initial stages of implementation of CSR. However, substantial progress has been made in the area of Environment, Health and Safety issues. But this is obvious for a construction company as a negative impact on employees is associated with its operations. As a professional company, the agenda of both CSR and Environmental Management System should be strengthened. This would automatically generate proper reporting standards.

**Bharti Airtel's CSR Reporting Standards**

Bharti Airtel is a flagship company of the Bharti Group of companies, which is categorized under family business of India. Generally the reporting of Corporate Social and Environmental Responsibility is only confined to the website, and they find no place in the annual reports of the companies. Most of the family business follows this trend and Bharti Airtel is no exception. However the most striking part of Bharti Group is

the CSR Agenda, which is of all the companies taken together under a separate wing namely Bharti Foundation. Every year Bharti Foundation publishes an annual report where they mention all their CSR activities. Therefore it is a departure from the traditional approach of reporting by a particular company. Instead a separate reporting is done by the company on their website and joint reporting of a group of companies done through a separate wing.

The reporting contents of Bharti Airtel in their website constitute the following:

- **Overview:** Includes the corporate values on which CSR Agenda is rested on and the core principles to imbibe responsibility among stakeholders and the approach of stakeholder involvement.
- **Employees:** Includes self-certification of the organization as “employee-friendly” and the approach to solve different disputes among employees. In a nutshell this part discusses about the company’s responsibility and commitment towards its internal stakeholders.
- **Environment, Health & Safety:** Includes the statement of environmental responsibility internally and externally. The core principles followed for optimal use of environmental resources like water, air, energy and promotion of green shelters. They also mention about the different safety measures undertaken by the company. The adoption of

eco-friendly building strategy is no doubt a unique step towards the agenda of sustainability. However the reporting does not contain what compliance standards the company maintains. There is no mention of environmental reporting in the form of Environmental Management System (EMS) or Environmental Impact Assessment (EIA) of their new projects.

- **Community Initiatives:** Contains the core values of the company on which the initiatives of CSR Agenda lies. Functionally CSR Agenda has been divided into two parts. The first part states monetary contribution of internal stakeholders in the form of donation for a social cause or for any disaster in the economy. The second part talks about the company's active participation in the CSR wing of Bharti Group and the CSR Agenda of Bharti Foundation.

There is no disclosure process mentioned in their report. Bharti Foundation is the CSR wing of the Bharti Group of companies, in which Bharti Airtel is a part. The Annual Report of the Bharti Foundation is the only common disclosure mechanism of the Corporate Social and Environmental Reporting by the Bharti Group. Thus the reporting standard of Bharti Foundation is of utmost importance for Bharti Airtel's CSR Agenda. Bharti Foundation's report contains CSR activities in detail including the internal stakeholders' as well as external stakeholders' participation. The Foundation's report starts with the Chairman's message of

vision, mission and objectives of CSR of the company. It also contains the agenda for active participation in the area of promoting education in India and the different measures implemented to fulfil these objectives. It also includes an

**Unlike ITC, Bharti Group as such does not follow any GRI or similar guidelines for reporting standards.**

appraisal of the efforts of CSR by the Foundation, reported by stakeholders at various levels. This is the only process of evaluation of the CSR Agenda. There has been no third party involvement for environmental and social auditing. Unlike ITC, Bharti Group as such does not follow any GRI or similar guidelines for reporting standards.

#### **Continental Devices Limited & Sikhya**

Continental Devices India Limited is a family-based company, which is not listed in BSE or NSE. It was a company, manufacturing silicon semiconductors pioneered in 1964. The company was the first electronic components manufacturer in India to have received the ISO certification in 1992. The company, at present, enjoys the certification under the ISO/TS 16949 and ISO 9001 Quality Management Systems, as well as the ISO 14001 Environmental Management System. The vision and mission of the company suggest that the company aims to maintain the level of excellence and quality they had been delivering so far and become the global leader in semiconductors.

The company has set up an example of undertaking CSR in the educational sector through setting up “Sikhya”, a school of the underprivileged children. This school is run by the Guru Nanak Vidya Trust, a core wing of CSR of the (CDIL) which is involved in different philanthropic activities in the sphere of education. The most striking about “Sikhya” is its stride to provide the most modern infrastructure in education to the underprivileged children free of cost. The school is comparable with any contemporary international school in terms of the resources for modern education, which includes provision for computer education, audio-visual teaching medium, science lab, art lab, resourceful library, other essential resources for classroom teaching, good number and quality of teachers, and a modern eco-friendly green building with playgrounds and garden around. The most striking about the CSR efforts of the company is its effort for constant up-gradation of real social work, which can actually bring significant changes in the society, and less publicity. This is the reason behind no CSR reporting of the company’s endeavour either in the website or in the company’s annual report or a stand-alone report of the company.

**The most striking about the CSR efforts of the company is its effort for constant up-gradation of real social work, which can actually bring significant changes in the society, and less publicity.**

The company has no separate reporting practice as far as its res-

ponsibility towards its stakeholders is concerned. However, statements on quality and report on environmental policy is provided in their website. The brief one- page report on environmental policy consists of their effort to convert into a lead-free product and process. The Environmental Management System (EMS) of the company is very well-versed with the given compliance standards it follows. Moreover information regarding the waste disposal system, that has to be followed by the consumers of the company’s semiconductors, is provided in the Environmental Management System as part of their environmental responsibility, taking into consideration the broader aspect of global environmental problems.

#### **Indian Oil (IOC)**

Indian Oil is the topmost public sector Indian company ranked in the “Fortune 500”, with a turnover of Rs. 247,479 crore and profit of Rs. 6963 crore for the fiscal 2007. IOC is also the 20<sup>th</sup> largest petroleum company in the world. The corporations’ cross country network of crude oil and product pipelines meets the vital energy needs of the consumers in an efficient, economical and environmental friendly manner.

Indian Oil Corporation has a very remarkable practice of CSR, categorized under four following initiatives:

- Community Development Programmes
- Promoting Art & Culture

- Indian Oil Foundation
- Meeting Social Obligations

The initiatives have been well documented in the website. The community development programmes include drinking water facility, promotion and improvement of health, providing capital equipments to medical centres, and offering infrastructural facility for education. A separate allocation of the company's budget is kept for community development programmes. Indian Oil's own endeavour on promoting art and culture is initiated. A separate trust has been created in the name of "Indian Oil Foundation" in collaboration with Archaeological Department of Survey of India (ASI) and the National Culture Fund of the Ministry of Culture, Government of India. The objective of setting up this trust has been in tune with their mission of preserving ecology and culture. The company also follows policies, which ensure support for women empowerment, and economical and sociological support extended to the weaker sections of the economy.

**The Environment Management Systems at the refineries, pipelines and major marketing installations are certified to ISO-14001 standards.**

The CSR reporting as mentioned in the company's Annual Report on performance, mentions about the initiatives undertaken by the company. The report also contains the company's

environmental efforts with special reference to the initiatives on Energy Conservation. The Environment Management Systems at the refineries, pipelines and major marketing installations are certified to ISO-14001 standards. The quantitative parameters have been utilized in their reporting on Energy Conservation and it seems that they have tried to generate the impact through reduction of energy use and the amount of money thus saved. In the Director's Report the Corporate Social and Environmental reporting has been documented. But no stand-alone reporting on the CSR and Environmental Practices has been documented so far.

#### **Steel Authority of India Limited (SAIL)**

SAIL is one of the leading steel companies of India, producing both basic and special steels for domestic construction, engineering, power, railways, automotive and defence industries and for sale in export markets. It is ranked amongst the top ten public sector companies in India in terms of turnover.

SAIL maintains the "Compliance to Corporate Responsibility to protect environment" as the main objective of their environmental management system. Initiating and undertaking several projects to further reduce water consumption, air emission in all the batteries, energy consumption, etc., the company is trying to go beyond the compliance level. The company has articulated the achievements in EMS in their website as well as Director's Annual Report. Their reporting standard

is not only qualitative, but also includes some quantitative parameters for evaluating the environmental performance. The entire reporting on environment falls under a sub-heading on Safety, Health and Environment.

SAIL's work on environment has also put special emphasis on global climate change initiatives like CDM following the Kyoto Protocol and Asia Pacific Partnership for Clean Development & Climate Programme to reduce carbon dioxide load in the environment. SAIL has undertaken seventy one CDM projects. The company also chose to register a project at UNFCCC in July, 2007 on waste heat recovery at Rourkela for getting carbon credit. India is a signatory of the Montreal Protocol. Following those guidelines, the company has decided to phase out ozone-depleting substances. A project for replacement of carbon tetrachloride at its units is implemented together with UNDP.

**The company has decided to phase out ozone-depleting substances.**

CSR at SAIL started since its inception. The company has framed sound socio-economic objectives towards its stakeholders, viz. employees, customers, suppliers and community. SAIL's responsibility towards the society is mentioned in their website as "We value the opportunity and responsibility to make a meaningful difference in people's lives". SAIL has mainly worked in the areas of environment conservation, health and medical care,

education, women's upliftment, providing potable drinking water, sanitation, power and roads, sports, culture, etc., at each of its plants and units. Besides focussing on peripheral areas of economic development, joint ventures are initiated with small, local entrepreneurs, NGOs, state governments and the Centre. The entire framework of their CSR is in tune with their objectives quoted above.

### **Critical Appraisal**

The analysis here is based on personal discussions with the CEOs, CFOs, independent directors, whole time directors, nominee directors, executive directors and general managers of public and private companies in India over the last two years. In addition some Chartered Accounting and Law firms were also consulted on these issues.

Professionally managed companies are very aggressive in reporting CSR, activities as they engage consultants in all the three phases –introduction, implementation, and evaluation of CSR activities. Some of the professional companies have limited focus and therefore they believe in doing CSR by themselves. Some corporations have an

**There are large industry houses like Godrej who conventionally have engaged in significant and substantive CSR but are not publicizing their work in this area.**

all inclusive agenda and report as CSR, even philanthropic activities like

charities, donations etc. Prima facie the stakeholders may have reasons to be satisfied with such an all inclusive CSR reporting. Recently ITC gave a lot of emphasis by focusing the entire speech of their Chairman at the last AGM on CSR. However, there are large industry houses like Godrej who conventionally have engaged in significant and substantive CSR but are not publicizing their work in this area. Corporations who are engaged in environment sensitive business are required to report and they do so but lately they have also started focusing on the social aspects of CSR.

Most of the reporting and disclosure practices of successful corporations tend to confine reporting their schemes and operating details but do not even summarily highlight the actual problems in CSR implementation at various phases of company growth. No corporations highlight how they go about CSR activities or how they identify and select strategic partners and NGOs. Nor any details of monitoring of CSR are reflected in reporting. It is necessary that stakeholders know if corporations are able to develop appropriate and relevant linkages with strategic partners and how these in turn will strengthen their CSR programmes. It is also not known if the corporations who have special cells and departments for CSR have actually done any capacity building on CSR and its

**No corporations highlight how they go about CSR activities or how they identify and select strategic partners and NGOs.**

reporting as per the internally compatible standards. Not much training and development efforts are visible in this regard in India.

In the well established family owned companies CSR is driven by family sentiments and values and is identified with the vision and wishes of the dynasty of a particular family. In such cases the CSR activities are dedicated to the founding father or other members of the family who mattered in their business and certain activities are dedicated in their name such as health care and education. However, details of corporate reporting are limited to the budgeted expenditures and a broad description of their CSR activities so that the stakeholders may not be able to read much into the same.

Another limitation of corporate social reporting is the assumption that since the stakeholders are illiterate and often not educated enough to comprehend the CSR information and their likely impact the content of such reporting had been rather limited to the scheme details. In most cases neither the primary nor the secondary stakeholders understand or comprehend enough the basic premises and the actual range of CSR activities and therefore they tend to believe whatever briefing they receive from the NGOs or Panchayats in the villages and rural areas. The same limitation may apply to the readers and stakeholders in the organized sector of the Indian economy. Thousands of managers were asked if they had read the company annual reports and a majority

**The managerial class in general is not interested to know what their corporations are doing in the realm of CSR.**

replied in the negative. The managerial class in general is not interested to know what their corporations are doing in the realm of CSR. So if the organized sector stakeholders do not understand the reporting on CSR nor are interested enough to demand more of relevant information how do we expect the stakeholders in the unorganized sector to understand and respond to the same? But in none of the cases detailed above the corporations cannot limit the content of information in CSR reporting because they have all the more a moral and ethical responsibility to educate and inform the stakeholders. But the problem in the Indian context is that the stakeholders are unable to articulate their preferences or expectations and also the fact their basic preferences change over time. Thus the corporations may not voluntarily anticipate and respond by a range of CSR schemes.

Seldom the CSR disclosure practices indicate how much CSR efforts they make in response to the local demand from the variegated stakeholders; in fact corporate disclosures should indicate how much new demand they have been able to stimulate among and between the different groups of stakeholders over time. Alternatively they should provide information on how their CSR schemes have reinforced and met with the existing demands for various types of CSR.

Some consultants and NGOs in India undertake regular surveys of stakeholder engagements by select groups of corporations while these are useful reports which general public cannot otherwise get access to they may not represent the real magnitude and implications of the CSR efforts of the modern corporations in India.

Often the content of corporate social and environmental reporting is directed at the government policy makers, market regulators as well as foreign collaborators and the multilateral institutions with whom the corporations are dealing. While participating in several government committees and committees of Chambers of Commerce we tried to focus on some critical concerns of CSR engagement but regrettably, barring a few, their response is monosyllabic; many have responded negatively. Neither the CEOs nor the corporate boards devote enough time and effort to introduction, management and reporting on CSR activities and therefore the content and scope of such disclosures are severely limited or in a majority of cases altogether absent.

**The content and scope of such disclosures are severely limited or in a majority of cases altogether absent.**

The corporations know that the stakeholders are not in a position to verify information disclosures on CSR. In fact, the agency problem between the suppliers of corporate social reports and

the end users is turning out to be an advantage for corporate India. Section 2h of the Right to Information Act of 2005 government undertakings and public enterprises are required to disclose in response to specific application seeking information on social and environmental activities of the corporations. However, the RTI will be more exercised for issues of corporate governance rather than CSR since the linkage between the CSR and good corporate governance is still to be established in the Indian business regardless of ownership patterns and structures.

There is a natural tendency for a corporation to disclose when the going is good and where mass communication strategies promise vast market access and future profit streams. But the same company would not like to disclose if some of the social and environmental schemes have not produced the expected results or have been discontinued altogether. This seems to be addressed in recent times by the large multinational and Indian corporations through stand alone sustainability reports on social and environmental aspects. These reports also contain a separate third party independent assurance statement. It is quite likely that large Indian corporations will gradually adopt such practices voluntarily

Already in India nearly 100 corporations have signed the UN Global Compact (which of course, is not actually CSR but the principles outlined therein will eventually lead to socially more responsible investment by the

corporations in the future). Also there are increasing trends in the developing countries for voluntarily adopting the Global Reporting Initiative on sustainability as also complying with the global standards of sustainability practices. Also the corporations are unsure as to how the market analysts and business experts will evaluate the information content of their social and environmental reports. Neither the accounting profession nor boards of corporations are making concerted efforts to moot the much needed policy prescription for CSR disclosures and the resultant benefits accruing to the stakeholders as also the corporations. They have, indeed, frequently discussed the need for human resource accounting but a lot of work is needed in countries like India on social accounting.

**Neither the accounting profession nor boards of corporations are making concerted efforts to moot the much needed policy prescription for CSR disclosures.**

Seldom we find a board sub-committee on ethics and CSR or on socially responsible investment. The traditional finance and investment committees deal with the issues of hard core finance and not on social accounting or corporate social performance. There is need for ethics and CSR committees since the entire board is never likely to devote time for ethics and CSR issues of the corporation. Unless the corporate boards are involved a lot of institutional and financial resources

will be lost (already lost in many cases) and the intended beneficiaries will be deprived of the potential social and environmental goods and services.

There has been some debate on the issue of incentives to be provided to the corporations for adopting and disclosing CSR practices. As for the first there are exemptions on philanthropic activities so already tax concessions are available on certain types of investments and activities by the corporations. As for the second issue of incentives for reporting the views are divided. It is suggested that since the CSR activities are voluntary and they cannot be legislated it is entirely up to the promoters and management to adopt particular types of reporting content.

Of course based on the actual trends in CSR and corporate governance performance in India there is already a practice of awards for the best practices by the Chambers of Commerce, SCOPE and other organizations. But these are based on data which the corporations supply when they participate. We are unaware of any particular practice of verification by a third party as to the full range of intended benefits realized. So there is an information asymmetry problem and a situation of incomplete social contracts between the corporations and the stakeholders.

Public enterprises seem to undertake all sorts of activities and club them under CSR and report in their websites and annual reports-information overload problem. On the other hand we have

minimal social disclosures from the corporate sector in significant number of cases –information shortage problem. These extremes arise due to the relative absence of a well defined CSR agenda and monitoring of the actual progress of the various schemes by the corporations. Also we have hardly any information on the participation of NGOs and other voluntary organizations involved in a company's CSR and environmental activities. The stakeholders need to know how corporations are engaging voluntary organizations since the companies have no core competence in handling CSR issues. It is not known if the NGOs are also involved in the capacity building exercises wherever undertaken by the corporations.

There is no debate in India on the subject of corporate social and environmental reporting; particularly the costs and benefit analysis of the matter. Only in respect of environmentally sensitive industries there is some idea of costs of technology and other associated costs of compliance for preventing and / or reducing the extent and incidence of pollution. Barring these industries there is no clue as to what are the costs involved and are they the main deterrents to providing the intended benefits of CSR activities.

Investments in social and environmental aspects of company operations is an important question of intergenerational equity and social justice but if the industries are focusing on the intergenerational issues then there are obvious costs for the future generations

and that is how the critical issues of sustainability arise. Mere compliance does not reduce the incidence of pollution nor mere reporting some events absolve the companies from their accountability. If we define costs as those not meeting the objectives of CSR and sustainability then there are higher costs involved since large majority of corporations are unable to start, implement and evaluate their range of CSR activities and to that extent their reporting is far from complete.

**Mere compliance does not reduce the incidence of pollution nor mere reporting some events absolve the companies from their accountability.**

Do public policy makers and regulators benefit from social and environmental disclosures and reporting? In the case of mandated environmental reporting public authorities get the information in the compliance reports and may use the same to assess the effectiveness of their regulations. However, in the case of investments by companies on the social aspects which are essentially voluntary decisions it would be very difficult to make an assessment over time.

One of the principal objectives of CSR activities is to empower local community such that eventually ownership of the CSR agenda and its sustained implementation becomes a feasible practice. Corporations which are convinced of their contributions towards social and environmental aspects of their operations are more

likely to disclose in greater details. In this sense transfer of CSR agenda ownership illustrates the relative effectiveness of the CSR schemes and the methodology adopted for such a transfer by the corporations. Corporations which are unable to transfer the agenda or which are unable to carry the CSR agenda on their own will be less inclined to share greater details of these activities.

### Conclusion

The current business practices in Indian companies do not reveal substantive approach towards environmental and social disclosures and reporting. The major focus of reporting is based on qualitative description of their functions and roles but no emphasis has been given on a defined set of quantitative parameters, which may lead to understanding of company's approach and performance from a social cost-benefit perspective. While these practices may vary among different ownership patterns and structures there is abundant scope for a new public policy framework in India which will motivate and also regulate modern corporations to not only adhere to technical, social, and ethical standards but also achieve significant results beyond compliance. Corporations presently need to achieve higher standards of transparency and accountability by way of good corporate governance.

### References

- Gray, Rob, & Reza Kouhy & Simon Lavers (1995), "Corporate social and Environ-

- mental Reporting: A Review of the Literature and a Longitudinal Study of UK Disclosure”, *Accounting, Auditing & Accountability Journal*, 8 (2)
- IIIEE Report: CER: Regulatory & Policy Action Review (2002), Corporate Environmental Reporting: Review of Policy Action in Europe, International Institute for Industrial Environmental Economics, Lund University
- Owen, David L. (2003), Recent Developments in European Social and Environmental Reporting and Auditing Practice – A Critical Evaluation and Tentative Prognosis; ICCSR Research Paper Series - ISSN 1479-5124 (3)
- Sumiani, Y., Y. Haslinda & G. Lehman (2007), “Environmental Reporting in a Developing Country: a Case Study on Status and Implementation in Malaysia”, *Journal of Cleaner Production*, 15 (10):895-901
- OECD Report (2006), “Environmental Compliance and Enforcement in India: Rapid Assessment”, Report prepared for OECD Programme for Environmental Cooperation, November 2006, <http://www.oecd.org/dataoecd/39/27/37838061.pdf>, accessed on September 2008.
- Malarvizhi, P. & Sangeeta Yadav: “Corporate Environmental Reporting on the Internet: An Insight into Indian Practices”, Paper presented at the 11<sup>th</sup> Annual Convention of the Strategic Management, IIT, Kanpur
- Ullmann, A.E. (1985), “Data in Search of a Theory: a Critical Examination of the Relationships among Social Performance, Social Disclosure and Economic Performance of US Firms”, *Academy of Management Review*, 10(3).