

An Analysis of Corporate Social Responsibility through Social and Environmental Reporting



Dr. Amar Nath Agarwal

Assistant Professor, ABST
SCRS Govt PG College, Sawai Madhopur (Rajasthan)

Abstract

Social reporting is more related to how business entity acts for society and humanity, whereas environmental reporting is more concerned with how business activities affect the echo system of the planet. Though there are distinct and unique differences between these two types of reporting, still it can't be said that social reporting will exclude environmental awareness. Though social and environmental reporting both have their own distinct and unique characteristics, however these are used interchangeably due to common and general effect of these on the society and human life. In the present article various areas of social and environmental reporting have been explained. What the companies, under study, are contributing for the society in respect of social and environment reporting have been explained in detail. Guidelines and standards given by various international organisations have also been discussed. The ways of measurement of social and environment performance have been explained. Various suggestions have also been given in this respect.

Keywords: Social-Environmental Reporting, Greenhouse Gas Emission, Physical-Monetary Terms

Introduction

Every business organisation has its responsibility towards society. A business entity can't run its business activities and can't earn profits without the contribution of the society. A business firm uses natural resources for production, human resources for employees, public as a platform for customers. So there is a need to analyse and report about what a business contributes for society against what they are consuming from the society. For the purpose of social reporting various areas have been identified like income human resources, product or services and public utilities etc.

Environmental reporting provides a significant tool for the environmental performance and to full fill the responsibility of an organisation as regards to environmental disorder. It covers criteria like carbon and other greenhouse gas emissions

also. All business entities are expected to report publicly on their environmental performance and to show how they are concerned for the transparency and commitments towards welfare of society and the protection of environment.

Objectives

Considering broad parameters the corporate entity form of business organisation is a social institution, it shall be governed by the social compulsion and the need of the time. According to Prof. Admin Smith a corporate entity, being a social institution, shall be under the statutory compulsion to comply with the need for social responsibility. In this article an attempt has been made:

- a. To assess how the social responsibility bestowed upon business house is discharged while using the material of the planet.

- b. To determine the extent to which the corporate entities are discharging their responsibilities towards society.

Methodology

For the purpose of this article information from randomly selected corporate entities have been collected to focus on:

- (i) The proposition relating to and environmental and social accounting.
- (ii) The auditor's responsibility towards certifying this aspect in audit report.
- (iii) Present status of social and environmental reporting and the dictation of the accounting standards in this respect.

Conceptual Framework on Social and Environmental Accounting

In this article, social and environmental accounting is used interchangeably and focusing on the broad ambit of ecological production as a part of social obligation of corporate entities when these undertaking are involved in the larger scale manufacturing activities.

It has been retreated that environmental accounting does not depict only the accounting dimension, but also reflect to legal dimension. Here a brief presentation is being made to the relevant issues from an economist's point of view:

Welfare activities have been viewed as a measure of well-being, but it is very difficult to give a comprehensive meaning of welfare. In economics, it is said to be a condition, constituting the quality of life, entertainment of people, and reduction of deprivation of general masses. While projecting accountability for environment, the following two variables are confronted:

One is individual satisfaction and the other, group objectives or corporate objectives in meeting social needs. Each consumer's choice must be internally consistent with his own preferences, while at the same time, corporate business entities must also try to full fill the social norms. Accounting obligation and manner of reporting about environment had been established as the guideline in the UN System of National Accounts

(SNA). The National Account Statistics in India is based on the aforesaid guidelines. The resources utilized have been expressed in monetary terms, UNO has developed the System of Environmental Economics Accounts (SEEA) and embodied it in a book entitled Integrated Environmental and Economic Accounts. According to this, there has been three approaches to Environmental Accounting such as:

1. National Resources accounting in physical terms.
2. Environmental Accounting in monetary terms.
3. Welfare and similar approach.

United Nation's conference on the human environment accepted the agenda for preservation of protection of human environment, even in course of pursuing manufacturing and trading activities by large multinational companies. It was argued that in the case of depletion of resources taking place in the rubber plantation in Malaysia, the accusing finger has been raised towards the MNC's in USA, who are the biggest beneficiaries of raw rubber. Obviously, it was advocated, that the companies should correspondingly bear an alternative cost in respect of natural resources consumed beyond the level of tolerance of the earth.

In a renowned judgement it was directed to frame guidelines for industries to pay compensation to farmers for damaging their land through disposal of untreated effluents. In this case farmers were paid a big amount as a compensation for the destruction of crops. Under the Public Liability Insurance Act (PLIA), insurance cover is mandatory for hazardous industries which shall contribute to an Environment Relief Fund setup to provide immediate compensation. Another statute the National Environment Tribunal Act, may also take suo-moto action against an industry causing pollution.

Problems of Measurement in Social and Environmental Accounting

Several problems are faced in measuring the damage caused to the environment by the haz-

ardous industries in monetary terms. The following problems are proposed to discuss here:

1. The physical quantity of resources used may be obtained from an engineering valuation or a technical valuation. The accountants may seek the guidance of the engineering experts.
2. The second problem emerges in measuring the resources used in its monetary terms, although, the economists like K.E. Building, Ketherim M Price, have emphasised the measure of economic variables. But an accountant finds it difficult to establish a suitable monetary expression for the same.

Prof. Adam Smith's concept of Wealth of Nation signifies that the total material resources or wealth affluent of the planet belong to the total humanity on the globe. At the same time, such total wealth of the world gifted by nature ought to be distributed in a free and fair manner among the member nations. The moment where it is failed to reach the desired level of distribution of the mass, it causes disequilibrium. In this context it was the proponent for free market economy for the welfare of human beings.

The Club of Rome's Report the "Limit to Growth" expresses serious concern owing to over exploitation of global resources. The Stockholm conference declaration lead to the establishment of the United Nations Environment Programmes to educate mankind to live with the rest of nature and not against it, the need for accountability of a nation to its originator of the resources i.e. nature, has been elaborated in the "Our Common Future" the report of World Commission on Environment and Development (WCED).

In accounting discipline a challenge has been imposed upon an accountant to evolve some quantified monetary measure in respect of environmental protection, conservation of natural resources and sustainable development with support from social- economic and socio-political reality and the prevailing value system in respect of growth and development. The Earth Summit devoted to sustainable development at Rio-de-Janeiro, Brazil, proclaimed twenty seven principles known as Rio-de-Janeiro declaration on environmental

protection. The message of the declaration urged the nation to reduce and eliminate unsustainable pattern of production and consumption and to provide suitable demographic policies for a higher quality of life for all people.

Obligation of nation and a corporate entity has been articulated by the United Nation in its framework of definition as follows:

"To fulfil the great capacity of social system, social structure, institutions, services and policies to utilise resources to generate favourable changes in the level of living, interpreted in the broad sense as related to accepted social values and better distribution of income, wealth and opportunities."

Now there is a need to focus on how the corporate entities try to cherish the national goal through their financial accounting system and by reporting the same to a variety of interested user groups.

In Environmental accounting natural resources can be classified into two broad groups such as:

- a. Natural resource in physical terms and
- b. In monetary terms.

Physical assets include changes in environmental quality of natural assets. The monetary term of environmental accounting is narrow as compared to physical resources accounting. For instance, in monetary approach, earning may be adjusted for certain environmental cost incurred to earn that income. Environmental cost would cover cost of fuel resources consumed, cost of raw material directly deducted from nature, cost of affluent and waste material spread into the nature, cost of health hazard of the employees working in a given work situation, over aging of employees in a given environment.

Environmental Accounting may focus in a model comprising of three parameters established as follows:

1. Inventories of natural resources used by the company in its production process.
2. Measuring and evaluating the assets stock and changes therein.
3. Economic and non-economic causes of the changes in the use of natural resources. In case

of environmental accounting, the biggest hurdle and encountered relates to the measurement and valuation of resources. The corporate entities under the study such as BHEL, SAIL, CCI, NRL, IOC etc., simply try to project the expenditure incurred under the following heads which broadly recognised as the social indicator reported by the company. These indicators, inter alia include contribution towards tax revenue of the Government, household income, general economic condition, improvement in health technology, social overhead: like-children education of the employees, hospital and nursing home facilities, recreation and club facilities, parking facilities, housing facilities etc. But these indicators are not enough for measuring the extent of sustainable development made by a corporate entity as a mission to complement the goal of a nation, e.g. improvement in life expectancy of employee, improvement in level of efficiency, decrease in medical expenses bill etc.

Auditing Aspect

The Numaligarh Refinery Ltd. (NRL), Golaghat, Assam has created a social organization within the company, the Kalyani Club of the NRL has set up with the dual objectives of providing recreational facilities to the staff of the company for taking up schemes, projects etc., for the welfare of the needy people in and around the Refinery. The company, through the club, has been extending help to the down trodden in and around the township, as one of the primary objectives. By this way the company is able to earn the goodwill in the community, which is essential for the sustainable growth of the company. Through this club, the company has succeeded in overcoming several of its managerial problems as trade union activities, pressure from local job seekers etc. The company has been trying to earn goodwill by undertaking social cultural activities and by promoting comradeship, friendship and understanding. The NRL adopted a humanist approach to some of the problems of the people around the Refinery. To build up a society to vouch the social activities of the NRL, it has been found that the company has sponsored many social activities

such as eye operation camp, free medical camps, helping physically handicapped.

Besides, it also organised professional skill development training facilities for ITI passed welders and fitters selected from unemployed youth. This company also adopted a multi-cropping scheme covering 800 Bigha land, benefiting 265 families in five different locations, supplying required agriculture inputs.

Another refinery IOC has also paid adequate attention to the environmental aspect. The company has embodied its concerns for the environment and reported the same under Annexure A to the Director's Report. This is also relevant to finishing additional information in terms of Government Notification on the subject issued by the Department of Company Affairs. A company has to disclose in its financial reporting, several parameters of Environmental Audit such as:

- A. Energy Conservation Disclosure.
- B. Additional investment and proposals, if any, implemented for reduction of energy consumption.
- C. Net saving from (A) and (B) above.
- D. Total energy consumption and energy consumption per unit of production.
- E. Power and fuel consumption per unit of production.
- F. Technology absorption: Technology absorption, again, would disclose following thrust areas namely- technology development, technology up gradation, process modification for product improvement, integration, collaboration with reputed laboratories, and research institutions, etc.
- G. Adoption of technology for improvement of environmental conditions.

The auditor, while discharging his attestation function, shall see whether the Director's Report contains information and disclosure regarding matter pertaining to environmental aspects.

Suggestions

Companies take pride in declaring the social and welfare overheads provided for the employees

in the form of a Social Balance Sheet and Social Profit and Loss Account. Here some of the following accounting tools are being suggested for social and environmental reporting:

1. Per employee spending on health and education.
2. Percentage share of social overheads in total corporate earnings, social rate of return on investment in employees education and training, measured by full cost and benefits.
3. Improvement or changes in the level of efficiency and productivity, measured by a difference in the number of units produced over two comparable periods. The average share or ratio of Human Resources Development experiences over earning of the company. Ratio of human resource development expenses over the administrative expenses of the company.
4. The ratio of changes in productivity during post training period over the pre-training period.
5. Quantifiable indices for a change in behavioural outlook, attitude and mind set and commitment of the employees towards the entity it serves.

Application of all these ratios provided by the company's personnel department, would supply a data bank for building up the Social and Environmental Reporting.

Conclusion

Business is a social institution hence it has a big responsibility towards society. An entity cannot run business activities and can't earn profit without existence of society. Whatever a business entity takes from the society and acts for society should be analysed and reported in financial

reports accordingly, social and environmental reporting can be used for this purpose.

Social reporting gives broader coverage than only a particular topic. The topic mainly covers are - employees welfare, good working conditions, women's representation in the employment, public welfare (like-establishment of hospitals, parks, water supply system, schools etc.) environmental protection, reduction in greenhouse gases, better way of disposal of industrial waste and sewerage etc. :

Though there are quite differences between social and environmental reporting, still at large both are concerned with the welfare of human beings.

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