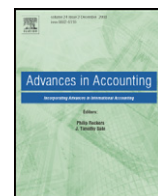




Contents lists available at ScienceDirect

Advances in Accounting, incorporating Advances in International Accounting

journal homepage: www.elsevier.com/locate/adiac

Determinants of corporate social responsibility disclosures: Evidence from India

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ARTICLE INFO

Available online xxx

Keywords:

Corporate social responsibility
Determinants
Indian companies
Corporate reputation

ABSTRACT

Over the last few decades, a number of studies, mostly in the western countries, have investigated the nature and frequency of corporate social responsibility disclosures, their patterns and trends, and their general relationships with corporate size and profitability. This study seeks to extend the knowledge regarding the relationship between a number of financial and non-financial corporate characteristics and the level of social responsibility disclosures based on an extensive sample of top Indian companies. Corporate size and industry category are found to correlate with the corporate social disclosures of the companies and the corporate reputation as recognised through awards and social ratings has also been observed to be a significant factor that influences the social disclosures made by the Indian companies.

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1. Introduction

Over the last few decades, there has been a great deal of academic research into the social reporting practices of corporations operating in different parts of the world. Researchers and academics working in the realm of corporate social responsibility (CSR) have shifted their focus from measuring corporate social responsibility disclosure (CSR) to exploring its determinants (Eng & Mak, 2003; Ghazali, 2007; Khelif & Souissi, 2010; Kotonen, 2009; Purushotahman, Phil, & Ross, 2000; Saleh, Zulkifli, & Muhamad, 2010). Academic researchers have made rigorous efforts to explore the financial and non-financial determinants of the social and environmental disclosures made by the corporate sector, including: size of the business (Eng & Mak, 2003; Hackston & Milne, 1996; Haniffa & Cooke, 2005; Said, Yuserrrie, & Haron, 2009), financial performance (Oeyono, Samy, & Bampton, 2011; Roberts, 1992; Waddock & Graves, 1997), age of the company (Cormier, Magnan, & Velthoven, 2005; Rahman, Zain, & Al-Haj, 2011), board characteristics (Hossain & Reaz, 2007) and nature of the industry.

The motivation for this paper emerges from the realisation that most of the research in this sphere of knowledge has explored CSR in the western world, and only a small number of studies have been conducted into CSR and its determinants in developing economies such as India, Pakistan, Malaysia and Indonesia. There has been little

research on the Indian corporate sector despite the strong global contribution of the Indian economy. To the best knowledge of the authors, only a few studies have explored the determinants of voluntary CSR in the Indian context. Three decades ago, Singh and Ahuja (1983) conducted a study on the determinants of CSR on public sector companies. Hossain and Reaz's (2007) study was limited to the banking sector and the index used considered only eight items related to CSR (out of a total of 65 items). There is a need for a comprehensive research study in the Indian context that explains the level of CSR and the factors explaining disclosures.

Besides the existing gap in the literature on CSR in the Indian context, the other motivation for this study is the need to measure and understand the level of CSR and its determinants before the application of the *Corporate Social Responsibility Voluntary Guidelines* issued by the Ministry of Corporate Affairs, India (2009), the *Guidelines on Corporate Social Responsibility for Central Public Sector Enterprises* (2010, 2012) and the Companies Bill 2012, which has made CSR disclosures mandatory in India.

As per the guidelines, CSR is a company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognising the interests of various stakeholder groups. These guidelines provide for resource allocation towards CSR projects in relation to their declared profits in a particular year and include regulations for the implementation, monitoring and reporting of social disclosures. They became law in 2013 after the Companies Bill 2012 passed through the upper house of India's parliament. These regulatory changes may have an impact on social performance and CSR by companies in India in the future. Therefore, this study will contribute to the existing

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literature on the determinants of CSRD by providing an overview of the level of CSRD in the pre-mandatory regime. Future research into CSRD can use the findings of this study as a comparative base to measure the impact of the CSR legislation in India.

2. Corporate social responsibility

2.1. Overview

CSR has sustained the attention of academics, researchers, non-government organisations and governments over a long period and has emerged as an important dimension of companies' operational activities (Vilanova, Lozano, & Arenas, 2009). The increased globalisation of trade, the rise in the strategic importance of stakeholder relationships and the growth of corporate image management have been key drivers of the increased importance of CSR (Azim, Ahmed, & Islam, 2009). Unfortunately, CSR does not yet have an accepted universal definition. Current CSR definitions are ambiguous, and differing interpretations (Valor, 2005) and perspectives (Balasubramanian, David, & Fran, 2005) have been adopted. Dahlsrud (2008) analysed 37 definitions of CSR originating from 27 authors and covering the period 1980–2003. Rather than attempting a comprehensive definition of CSR, the definition used here is that given by the World Business Council for Sustainable Development (World Business Council for Sustainable Development, 1998): 'The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.'

2.2. Why Indian CSR is unique

The CSR scene in India is unique for multiple reasons. The first and most important is the country's 'family-centered' style of management—most of the large corporations in India are controlled by family groups (Sundar, 2000). CSR has been practised by leading family corporations for over 100 years as a family tradition (Balasubramanian et al., 2005; Sagar & Singla, 2004). Thus, selection of CSR initiatives (benefactions for education, medical facilities and so forth) is influenced by the specific cultural and social preferences of the individual family. For example, the founders of the Tata Group established the JN Tata Endowment Fund in 1892 to encourage Indian scholars to take up higher studies abroad. This was the first of a large number of philanthropic initiatives by the Tata Group. Over generations, members of the Tata family have contributed much of their personal wealth to the many trusts that they have created to benefit Indian society.

The second unique feature of CSR in India is the lack of a formal and widely accepted mechanism for corporate reputation ratings such as Kinder Lydenberg Domini (KLD), Fortune, Moskowitz and Business Ethics; thus, corporate social performance (CSP) is not promoted. In India, Karmayog provides a rating for companies on the basis of their social performance (Karmayog, 2004), but the extent to which companies themselves and various stakeholders value these ratings has not yet been investigated. The conferring of various awards by the government and other social agencies provides recognition of companies' social and environmental endeavours. Companies voluntarily report their CSR efforts/awards in various business dailies, annual reports and websites. Better-performing CSR companies are more concerned about the readability of their CSRD (Abu & Ameer, 2011).

The third feature is the sets of guidelines for CSR reporting in India: the *Corporate Social Responsibility Voluntary Guidelines* (2009 and 2010) issued by the Ministry of Corporate Affairs, the *Guidelines on Corporate Social Responsibility for Central Public Sector Enterprises* (2010, 2012) and now the Companies Bill 2012. However, not all companies adhere to these guidelines because the observance of law is generally quite poor in India (Prieto-Carrón, Lund-Thomsen, Chan, Muro, & Bhushan, 2006). This fact is confirmed by poor implementation, monitoring and reporting of CSR mechanisms in Indian government companies (Report

no. CA 22). It also inspires research into the question that if legal compliance is poor, what else might drive companies to disclose or not to disclose?

Finally, India is a fast-growing economy that has witnessed substantial corporate and economic growth in recent years, particularly in the post-liberalisation era. Former United Kingdom (UK) Prime Minister Gordon Brown advised that India could emerge as the fastest growing economy in the world in the next 10 years (Hindustan Times, 2010). India is the first country in the world to mandate the spending of 2% of the average net profits of three years immediately preceding the reporting period (Companies Bill 2012). In addition, boards of directors are required to disclose the contents of CSR policy in their reports. Given the uniqueness of Indian corporations, research into the degree of CSRD – and the factors that drive companies to make high or low CSRD – attracts a great deal of interest.

3. Literature review

A literature review highlights the dearth of academic research into CSRD in developing countries (Azim et al., 2009), although there have been a large number of studies in the western world. Some prominent CSRD studies in the western world include Guthrie and Parker (1990); Roberts (1992); Gray, Kouhy, and Lavers (1995) and Gray, Javad, and Sinclair (2001). Studies in the UK include Samuel and Brian (2004) and Gray et al. (1995); in Canada, Zeghal and Ahmed (1990); in South Africa, Savage (1994); in New Zealand, Hackston and Milne (1996); in Western Europe, Adams, Hill, and Roberts (1998); in the UK and Germany, Adams (2002); and in Australia, Deegan and Rankin (1999), Deegan, Rankin, and Voght (2000) and Barut (2007). Studies in developing countries are minimal except for recent studies on CSR in Bangladesh (Azim et al., 2009; Khan, Muttakin, & Siddiqui, 2012).

The vast amount of literature devoted to CSRD throughout the world is a testimony to the importance of the concept over time. The determinants of CSRD are a research area receiving increasing attention. The relationship of CSRD as determined by financial attributes (size, profitability and the leverage of the firms) has been widely investigated and reported in the management and social sciences literature in developed countries (Haniffa & Cooke, 2005; Amran and Devi, 2008; Mahadeo, Hanuman, & Oogarah-Soobaroyen, 2011; Crisóstomo, Freire, & Vasconcellos, 2011). In South Asian countries in general, and specifically in India, research is limited to the nature and extent of CSRD (Singh & Ahuja, 1983; Cowen, Ferreri, & Parker, 1987; Vasal, 1995; Chaudhri & Wang, 2007; Murthy & Abeysekera, 2008).

The determinants of CSRD in emerging countries are not defined in the existing literature. In India, very few studies explore inter-industry variations and the determinants of CSRD (Hossain & Reaz, 2007; Porwal & Sharma, 1991; Singh & Ahuja, 1983). Singh and Ahuja's (1983) study analysed 40 annual reports of public sector companies by employing the content analysis technique. It covered 33 items of social disclosure and found that 40% of Indian public sector companies disclosed 30% of the total CSRD items under consideration. The study examined the relationship between corporate social reporting and company size, age, profitability and industrial grouping, and concluded that company size, earning margin and industry type were statistically significant in explaining the extent of social disclosure. As one of the initial studies, it explored only a small number of CSRD items and covered only public sector enterprises. Porwal and Sharma's (1991) study demonstrated that larger companies – measured by the size of their disclosed assets – made greater CSRD than smaller companies. The rate of return and earnings margin did not explain much variance in CSRD. The most recent study in an Indian context was conducted by Hossain and Reaz (2007). The study is quite limited in scope and used only a small sample of 38 banking companies; at best, the results are indicative of corporate characteristics explaining CSRD in India. The study stressed size and assets-in-place as significant determinants of CSRD.

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