

## Social Accounting: A Helping Tool of Corporate Social Responsibility

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### ABSTRACT

The concept of social accounting is growing in recognition and sophistication. As it becomes one of the foundations of good practice in Corporate Social Responsibility (CSR), interest is growing within large corporations, consultancies and voluntary organizations identical. The paper examines the corporate social reporting practices and analyses social reporting relating to human resource, Environment and social relations.

KEYWORDS: Social Accounting; Human Resource; Corporate Social Responsibility.

### I INTRODUCTION

Adam Smith introduced the concept of Social Accounting originated in different forms in 1776, Further, Karl Marks and Engel also elaborated their views about social costs in 1844. Pigou in 1920 also developed the discrepancy of Social and Private Costs. The concept of social accounting was clearly introduced in the 1970's and later this concept received serious consideration from professional and academic accounting bodies. Social accounting as an approach began developing in the UK in the early 1970s, when the Public Interest Research Group established Social Audit Ltd.

Social accounting is adopted mostly by developed nations but now developing nations like India are also adopting this concept as their management practice. The concept of Corporate Social Responsibility is represented by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society. Traditional views about competitiveness, survival and profitability are being swept away. Recently, the concept of corporate social responsibility is confidently rooted on the global business agenda.

### OBJECTIVES

- To study theoretical framework of social accounting in India;
- To make insights to the CSR practices of Maruti industry in India.

### METHODOLOGY

The present paper is based on secondary data. The sustainability Annual report of Maruti industry for 2011-12 has been analyzed. A detailed study of review of literature has been made to achieve the objective of the paper.

### WHAT IS SOCIAL ACCOUNTING?

Social accounting (also known as social accounting and auditing, social and environmental accounting, corporate social reporting, corporate social responsibility reporting, non-financial reporting or accounting) is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. Social Accounting is a method by which a business seeks to place a value on the impact on society of its operations. Social Accounting is an expression of company's social responsibilities and requirements of general corporate accountability. It is concerned with the development of measurements system to monitor social performances. Social accounting is commonly used in the context of business, or corporate social responsibility (CSR), although any organization, including NGOs, charities, and government agencies may engage in social accounting.

Gray defined social accounting as the "preparation and publication of an account about an organization's social, environmental, employee, community, customer and other stakeholder interactions and activities and, where, possible the consequences of those in transactions and activities".

Social Accounting is defined by Richard Dobbins and David Fanning as "the measurement and reporting of information concerning the impact of an entity and its activities on society".

According to Ramanathan, “Social Accounting is the process of selecting firm level social performance variables, measures and measurement procedures systematically developing information useful for evaluating performance and communicating such information to concerned social groups both within and outside the organization.”

## **KEY SOCIAL ACCOUNTING MEASURES**

### **Cost Benefit Analysis**

Social cost benefit analysis is a technique to weigh up the environmental and social benefits and costs of a business investment. It is used to understand community expectations and concerns about the potential social and environmental impacts of a project to enable business to address these and make the project more acceptable. Under this system the undertakings present social Balance Sheet and Social Income Statement. The asset side of the balance sheet depicts social investment of capital nature i.e Township, water supply, school, club, road etc. The liability side shows organizations equity and social equations in the form of contribution by employees. Social income statement comprises social benefit and cost of staff community and general public. If social benefit exceeds social cost the resultant is not social income to staff, community and general public.

### **Preparation of Separate Schedule**

Schedules representing employees’ benefits and services, social overhead, township maintenance etc are prepared and shown as a part of annexure in the annual general report. Employee benefits and services consist of salary and wages and various social security benefits. Social overhead schedule include medical, educational, canteen and transportation facilities etc.

### **Expanded Value Added Approach**

Building on traditional accounting principles, the Expanded Value Added Statement (EVAS) is an innovative tool to account for economic, social, and environmental factors. It provides a way to account for traditionally non-monetized.

### **Other Approaches**

Mention of social activities undertaken by an enterprise in chairman’s speech, directors’ report or auditor’s report. This approach aims at informing the general public, government and its members about the organizations goals with economic goals. Other method is pictorial presentation in annual report of social activities like sponsoring of social and charitable causes and other social welfare activities; supplementing of government efforts effectively; focusing on human elements; ensuring ecological balance, engaging in philanthropic activities undertaken in by the organization.

## **II REVIEW OF LITERATURE**

### **FOREIGN LITERATURE REVIEW**

Tsang (1998) examined the annual reports of listed firms (from 1986 to 1995) across several industry sectors in Singapore, and revealed that one half of them did not have any CSR disclosures throughout the ten-year period

Imam (2000) observed that through examining 1996-1997 annual reports of listed firms from Bangladesh, have reported that many firms hardly engage in CSR.

Kuasirikun and Sherer (2004) examined annual reports of 1993 and 1999 of large Thai listed firms across different industry sectors and confirmed that their CSR disclosures were comparable to CSR disclosure of listed firms in Western nations.

Idowu & Towler (2004) observed that some motives for CSR include increased customer loyalty, more supportive communities, the recruitment and retention of more talented employees, improved quality and productivity and the avoidance of potential reputation risks which may arise from environmental incidents. It also appears that greater transparency is a key motivation for CSR in firms.

O’Dwyer (2002) CSR in Ireland seemed to be motivated by legitimacy purposes but was seldom attained. The Irish companies avoided CSR due to societal skepticism. O’Dwyer further pointed out that the Irish managers were concerned with accountability to wider society and the motives were outside of self-interest.

Henderson (2006) espoused that some firms may adopt CSR but their attitudes towards the society may remain unchanged and they are directed by self-interest, commercial dictates and political advantage. Thus the prior studies not only failed to clarify the motives behind CSR, but also have failed to investigate the motives along with the companies' reporting practices to get a comprehensive picture of CSR.

Batra, (1996) observed that each category is identified by a number of attributes. Human resource category included training, employee numbers, career development, equity issues, compensation plans, employee benefits, and safety. Community development category included community planning, children education and upliftment of poor, health services, and food programs.

Ratanajongkol et al. (2006) examined corporate social reporting in Thailand. They analyzed the extent and nature of corporate social reporting of 40 Thai companies over a 3-year period. Overall, they found that the level of corporate social reporting is increasing, with Thai companies reporting more on human resources.

Hossain & Reaz, (2007) examined determinants of voluntary disclosure in annual reports for Indian banking companies. Social disclosure represented one category of voluntary disclosure categories. The empirical results, based on a sample of 38 banking companies, show that corporate size and assets in-place are significantly associated with disclosure, while corporate age, multiple exchange listing, business complexity, and board composition (percentage of non-executive directors) are not associated with disclosure.

Mitchell & Hill, (2009) suggested that implementation of internal environmental policy facilitate increased corporate social and environmental reporting in South African companies.

Karim, et al, (2006) revealed a negative association between both foreign concentration and earnings volatility and environmental disclosure in the footnotes of annual reports and 10-K report.

Naser, et al, (2006) examined factors influencing COSOR in developing country. The variables that examined are corporate growth, market capitalization, profitability, leverage, and ownership variables (governmental ownership, institutional ownership, and major shareholders). The results based on a sample of 21 Qatari companies show positive association between extent of COSOR and corporate size, leverage, and corporate growth.

Brammer & Ravelin, (2009) examined the influence of corporate ownership and board composition (with some other variables) on environmental disclosure. They distinguish between the decision to make a voluntary environmental disclosure and decisions concerning the quality of such disclosure.

Hassim B., et al, (2011) examine the relationship between social and environmental disclosure and several corporate attributes in a developing country, Bangladesh. The variables used to explain COSOR; profitability. The results indicated that the variables which were found to be positively significant in determining disclosure levels are industry and the net profit margin.

### **III INDIAN LITERATURE REVIEW**

Ahmed & Curtis, (1999) indicated that accounting literature has been interested in the association between corporate characteristics and corporate annual report disclosure since 1961. So, studies that related to COSOR particularly interested in examining the impact of corporate characteristics on it.

Raman (2006) used content analysis technique to examine the chairman's message section in the annual reports of the top 50 companies in India to identify the extent and nature of social reporting. This study concluded that the Indian companies placed emphasis on product improvements and development of human resources. Community development issues were given relatively less space in the chairman's messages.

Ghazali, (2007) indicated that no studies have been done on the association between corporate ownership structure and COSOR, so his study examined the influence of ownership structure on COSOR. The factors that examined are: ownership concentration; director ownership; government ownership; company size; profitability, and industry. The empirical findings, based on sample of 86 Malaysian companies, indicated that two ownership variables, director ownership and government ownership, are significantly influence of COSOR in annual report, while, third ownership variable, ownership concentration, is not statistically significant in explaining the level of COSOR.

Profitability is not a significant factor in explaining COSOR, while industry was also significant factor influencing COSOR.

Porwal and Gupta (2008) carried out a study on social responsibility disclosure by public as well as private sector companies in India. According to this study, larger companies in both public and private sector disclosed more information than the smaller ones as measured by size of the assets. The extent of disclosure was also related with the size of companies in terms of net sales both for public and private sector companies. On the other hand rate of return and earnings margin had no effect on the extent of disclosure of social responsibility according to their study. Vasal, I.K. (2010) conducted a research study on social responsibility disclosures based on a sample of central public sector undertakings in India between 1988 to 1991. The study concluded that majority of the disclosures regarding social responsibility were made either in Director's Report or Schedule to Accounts or Notes to Accounts. Profit and Loss Account and Balance Sheet did not contain a single information item on social accounting.

## FINDING AND INTERPRETATION

**EMPLOYEE REMUNERATION AND BENEFITS:** The employee remuneration and benefits of the Company increased by 20% from ₹ 7,036 million in 2010-11 to ₹ 8,438 million in 2011-12. As a policy, the Company keeps the wages of its permanent and contract employees above the standard entry level minimum wages fixed by the state government. The Company does not differentiate on the basis of gender in awarding wages. The Company has the following benefit plans for its employees: Employees' gratuity fund, Leave encashment, and Retirement allowance

Table 1: Maruti Suzuki's Contribution to Employee Benefit Plan Obligation in 2011-12 (₹ million)

	Leave Encashment/ Compensated Absence	Employees' Gratuity Fund	Retirement Allowance
Present value of obligation as on 31st March, 2012	850	848	37

Source: Note 28 (Employee Benefit Expenses) of Standalone Accounts 2011-12 of Annual Report.

**FINANCIAL IMPLICATIONS & RISKS AND OPPORTUNITIES FOR THE ORGANIZATION'S ACTIVITIES DUE TO CLIMATE CHANGE:** Taking in cognizance climate change and acting proactively to reduce the impact of its operations and products, Maruti Suzuki has taken certain concrete steps. To promote the use of greener fuel amongst customers, the Company offers five CNG models – the Eco, the Wagon R, the SX4, the Alto and the Estilo. These come with the state-of-the-art i-GPI technology. On the manufacturing side, the Company monitors all its emissions and resource consumption stringently.

**GREEN MANUFACTURING:** Maruti Suzuki follows SMC's basic philosophy of Smaller, Fewer, Lighter, Shorter and Neater in its manufacturing facilities. The Company has identified five focus areas for protection of the environment and optimal utilization of natural resources: Material use and weight reduction Energy conservation, Water conservation, Air emissions reduction, and Waste management.

**WATER CONSERVATION:** Water conservation is an integral part of the Environment Management System at Maruti Suzuki. The Company has achieved zero waste water discharge status (outside factory premises) since 2003-04 at its Gurgaon facility and since 2006-07 at its Manesar facility. The Company uses canal water for most of its manufacturing processes to conserve groundwater. The total water consumption in 2011-12 for both the Gurgaon and Manesar plants was 1,801,322 m<sup>3</sup>, comprising 1,495,754 m<sup>3</sup> canal water, 305,018 m<sup>3</sup> tube well water and 550 m<sup>3</sup> rain water.

**WASTE MANAGEMENT:** The hazardous wastes produced as by-products of manufacturing operations at Maruti Suzuki include paint, phosphate and Effluent Treatment Plant (ETP) sludge, incinerator ash and used oil. The used

oil is sold to authorized recyclers. Maruti Suzuki has been sending paint sludge, phosphate sludge and ETP sludge to the cement industry for co-processing since 2010-11.

**DIVERSITY, EQUAL OPPORTUNITY AND NON-DISCRIMINATION:** The Company ensures that there is no discrimination against any employee on grounds of race, color, religion, caste, sex, age, marital status, disability, nationality or any other factor under applicable laws and contemporary practices at the workplace. Recruitment, placement, promotion, transfer, compensation, training and other benefits are based on the merit and competency of the individual and the business needs of the Company.

**NON-DISCRIMINATION OF PEOPLE WITH HIV/AIDS AT THE WORKPLACE:** The Company has instituted a policy to ensure nondiscrimination of employees infected or affected by HIV/AIDS and offers support to such employees. This policy applies to all employees and contract workers and covers all aspects of formal and informal work. No incidence of HIV/AIDS related discrimination was reported in 2011-12.

**FORCED AND CHILD LABOUR:** The Company abides by the Government of India legislation with regard to forced and child labour. The Company has also formulated an Anti-Forced and Child Labour Policy that covers its operations. Minimum age of recruitment is 18 years for all categories of employees. No incidence of forced or child labour was reported in any of the Company's units in 2011-12. Maruti Suzuki's policies on Anti-Child Labour and Anti-Sexual Harassment are shared with all its suppliers. The suppliers are encouraged to adopt these policies at their end.

**BENEFITS PROVIDED TO EMPLOYEES:** Other than the wages, the Company provides several benefits to its regular and contractual employees. All regular employees get food at 50% subsidised rates, while for contract employees, food is free. The medical centre within the factory premises is equipped with qualified doctors and necessary facilities and caters to the medical requirements of all employees including contract employees. All contractual workers are provided with personal protective equipments and health check-ups are carried out depending upon the nature of their work. Benefits like medical insurance (ESI), PF, uniform and other benefits are taken care of by the manpower supplier in case of contractual employees.

**TRAINING, REWARD AND RECOGNITION:** Maruti Suzuki considers employees as its most valuable capital and understands that the prosperity and well-being of the Company are aligned with that of its employees. The Company provides extensive learning opportunities through well-designed and customised training programmes that are rolled out throughout the year. In 2011-12, the Company achieved 5.15 training man-days per employee as against the annual target of 5.0 training man-days.

Table 9: Category-wise Training Achievement

Category	Training - Achievement (Man-days)
Executives and above	6.46
Supervisors	4.46
Associates	4.27
Overall	5.15

Employees are also sent abroad on AOTS and OVTA training to further improve their job-specific skills. They are also sent to SMC, Japan, to work on live projects and to learn from experienced SMC engineers. SMC is assisting Maruti Suzuki in a concerted way in establishing R&D facilities and developing the skills of the R&D engineers.

**HR INITIATIVES WITH SUPPLIERS:** The vendor HR initiative aims at strengthening HR practices at the suppliers' end. A cluster of 17 suppliers were engaged with various HR knowledge partners in 2011-12 to enhance their HR management. These knowledge partners are identified by Maruti Suzuki. Through continuous interaction with its JV partners in monthly HR meeting, the Company has tried to ensure basic medical facilities like dispensary, medical staff at the JV premises. In 2011-12, some suppliers were impacted due to discontent amongst contract workers.

**SOCIETY:** The local community and indeed, society at large, is an important stakeholder for Maruti Suzuki. The Company engages with this stakeholder group to assess its needs and addresses them through various CSR

initiatives. The social initiatives of the Company include nationwide road safety and skill development programmes and community development activities around manufacturing locations.

**ROAD SAFETY:** Maruti Suzuki runs a nationwide road safety programme. The programme was initiated in 2000 with the establishment of the first Institute of Driving and Traffic Research in New Delhi. Road safety is a major social concern in India. Maruti Suzuki's road safety programme provides formal and holistic driving training to novice and existing drivers.

**CUSTOMER HEALTH & SAFETY:** All Maruti Suzuki vehicles meet the prevailing safety regulations of the country. The active and passive safety devices provided in the vehicles ensure driver and vehicle safety in the event of an accident. Market research activities are periodically conducted to capture customer voice and incorporate customer feedback in existing and future products. Focus has been on vehicle fit and finish and interior quality as per changing customer preferences. The quality and feel of the plastic parts, interior upholstery like carpets and automotive fabrics have been improved in all Maruti Suzuki vehicles.

#### **IV CONCLUSION**

The study demonstrates that motivations behind human resource and community development aspects of CSR are complex, particularly in an emerging economy. In studying the two categories of social activities – human resource category and community development category, this study found support that firms employ CSR to legitimize their activities. The fact Maruti industry in India is expanding rapidly and experiencing a shortage of skilled labor has shaped their CSR practices in relation to their human resource category. The research demonstrates that Indian software firms support staff training and career development for economic reasons. Their CSR on human resources highlights the efforts taken by the firms to attract, and retain skilled employees in the firms. However, the motivation for reporting on community development activities emanates from a genuine interest of these firms to help the society. This study provides insights to the CSR practices of Maruti industry in India. However, the content analysis could be extended to other media. Additionally, a study could compare CSR practices of firms in knowledge-based industry and firms in a manufacturing industry, and CSR practices of Indian software firms with those of software firms in other countries. Finally, extending this study to other aspects of CSR (such as service contribution and relations with the environment) may elucidate other legitimating strategies adopted by firms

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