

Social Disclosure Practices of Public Sector Enterprises In India

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Abstract

The concept of corporate social responsibility has gained considerable attention in recent years with the increasing social pressure for the fulfillment of social responsibility. Companies need to act in a socially responsible manner for their long term survival. The present paper examines social disclosure practices of public sector enterprises namely Maharatna and Navratna companies in the light of new Companies Act, 2013 and Companies (Corporate Social Responsibility Policy) Rules, 2014. The period of study is two years i.e. 2013-14 and 2014-15. The study is based on annual reports. The data has been analyzed using independent samples t-test and paired t-test. The study highlights significant findings with regard to social disclosure practices of Maharatna and Navratna companies.

Keywords: CSR, Navratna, Maharatna, Companies Act 2013

Introduction

Corporate social responsibility implies responsibility of companies to contribute for the well being of society in which it operates. Companies need to interact continuously with society to meet their need of inputs and to sell off their output. Thus, it becomes necessary for the companies to take care of needs of society and minimize the ill effects of their operation on society. The concept of corporate social responsibility has gained momentum in recent years with the increasing social pressure for the fulfillment of social responsibility. The existence of companies is at stake if they don't act in socially responsible manner.

Corporate social disclosure refers to reporting of social activities. It can be defined as provision of financial and non-financial information relating to an organization interaction with its physical and social environment as stated in annual report or separate social reports (Hackston and Milne, 1996). The contents and pattern of social disclosure have undergone major change with the increasing government intervention and new rules and regulation. In India, public sector enterprises which are entrusted with the task of social welfare have to follow more stringent rules and regulations. Department of Public Enterprises (DPE) has issued guidelines from time to time in order to ensure that public sector enterprises fulfill their social responsibility and report these activities in a desired manner. According to Guidelines on

CSR and Sustainability for Central Public Sector Enterprises (2013), CPSEs are mandated to make budgetary allocation for CSR out of previous year Profit After tax (PAT) which will be determined as shown in Table 1.

Table 1

<i>Profit After Tax (PAT) in the previous year</i>	<i>Range of budgetary allocation for CSR as percentage of PAT in previous year</i>
Less than 100 crore	3% - 5%
100 crore to 500 crore	2% - 3%
500 crore and above	1% - 2%

Companies Act, 2013 which came into effect from April 1, 2014 has made it mandatory for companies to spend 2 per cent of their average net profits of preceding three years in social activities defined in Schedule VII of the Act. The following companies are covered under the Act-

(i) Companies having net worth of INR 500 crore or more

or

(ii) Companies having turnover of INR 1000 crore or more

or

(iii) Companies having net profit of INR 5 crore or more

The Act also mandates the companies to form CSR committee comprising of three or more directors with at least one independent director. The CSR committee is required to formulate and recommend CSR policy and amount of CSR expenditure in different activities. Ministry of Corporate Affairs (MCA) notified certain amendments in Schedule VII of the Act on 27th Feb, 2014 and defined a new list of social activities.

Review of literature

Cowen et al. (1987) studied impact of corporate characteristics on social responsibility disclosure of 134 U.S. companies. The study found that corporate size had significant impact on environment, energy, fair business practices and community involvement while industry category didn't have significant impact on most of social disclosures. Mc Guire et al. (1988) analyzed relationship between corporate social responsibility and financial performance of 131 firms for the year 1983. The study found significant association between corporate social responsibility and financial performance. Chander (1992) studied the corporate reporting practices of 50 public and 50 private sector companies operating in India from 1980-81 to 1984-85. The study found that employees' pension and retirement benefit were most reported items while expenditure on research and development was least reported item in both the sectors. Imam (2000) analyzed annual reports of 40 listed companies of Dhaka Stock Exchange to study corporate social and environmental accounting and reporting practices for the year 1996-97. The study found poor reporting practices among the selected companies and most of the disclosures were qualitative in nature. Gelb and Strawser (2001) examined relationship between corporate social responsibility and financial disclosures of 233 firms from 1989

to 1992. The study found that there was positive association between firm's disclosure and corporate social responsibility. Rao and Gupta (2004) analyzed annual reports of 30 public sector enterprises of India for the year 1999-2000 to examine the corporate social disclosure practices. The study found that IOC Ltd. showed highest disclosures followed by SAIL. Least disclosures were found in case of BHEL. Branco and Rodrigues (2006) in their study examined CSR disclosure practices of 15 Portuguese banks based on internet for the year 2004 and compared it with CSR disclosures in annual reports (2003) of selected banks. The study found that Portuguese banks made more social disclosures in annual reports as compared to internet. Murthy (2008) analyzed the annual reports of top 16 software companies listed on Mumbai stock exchange to examine corporate social disclosures practices for the year 2003-04. The study found that human resource was most frequently reported followed by community development while environmental issues were least reported. Rechanna and Mahadevappa (2010) evaluated the corporate social accounting disclosures of 10 listed Indian companies for the year 2009. The researchers found that public sector companies made better disclosures than private sector companies. SAIL in public sector and Infosys in private sector had maximum disclosures. Lungu et al. (2011) analyzed sustainability reports of top 50 companies to examine relationship between corporate characteristics (size and profitability) and social disclosures made by companies for the year 2008. The researchers found weak correlation between size and CSR disclosures. Further, significant negative relation was found between profitability and CSR disclosures. Sen et al. (2011) examined environmental disclosure practices of 22 core sector Indian companies for the year 2007-08. The researcher found that steel industry showed highest disclosures followed by oil and petrochemicals industry. The highest disclosures were found in case of SAIL. Conservation of natural resources was highest reported item by all the selected companies. Kaur and Arora (2012) examined the social disclosure practices of 19 public and 23 private sector companies of BSE 500 index based on annual reports from 2003-04 to 2010-11. The study found that public sector companies made more disclosures as compared to private sector companies. Bowrin (2013) examined social and environmental disclosure practices of 55 companies listed on Caribbean stock exchange for the year 2011. The study found low level of social and environmental disclosures among the selected companies. Khan (2014) reviewed the CSR practices of 127 public listed companies in 21 emerging economies (low or middle income countries) for the year 2005. The study found that most of companies participated in CSR initiatives and made disclosures either in sustainability report or annual report or on web site.

The review of literature highlights that corporate social responsibility has gained attention of researchers in last few decades. The studies which have been carried relates to voluntary disclosures of CSR activities. Further, few studies relate to social disclosure practices of public sector companies. However, these studies have been undertaken before the implementation of new Companies Act. The present study attempts to examine the social disclosure practices of public sector enterprises in light of new companies Act, 2013 and Companies (Corporate Social Responsibility Policy) Rules, 2014 which provide for mandatory disclosure of CSR activities and list out the specified CSR activities to be undertaken by companies.

Objectives of the Study

1. To examine item wise social disclosure practices of public sector companies (Maharatna and Navratna) in year 2013-14 and 2014-15.

2. To compare the social disclosure practices of Maharatna and Navratna companies for the selected years.
3. To study the impact of Companies Act, 2013 on the social disclosures of public sector enterprises.

Research Methodology

The study examines social disclosure practices of Maharatna and Navratna companies based on their annual reports. There were 7 Maharatna and 17 Navratna companies as on 31st Oct, 2014. Six Navratna companies (annual report was not available for selected years) and three finance companies have been excluded. Further, National Building Construction Corporation Limited which was granted Navratna status in June 2014 has been excluded from the study. Another Navratna Company named Shipping Corporation of India Limited which has incurred losses in selected years has also been excluded. Thus, the sample of the study consists of 13 companies- 6 Navratna and 7 Maharatna companies. The study relates to two years i.e 2013-14 and 2014-15. The reason for selecting these two years is that 2013-14 is pre-implementation year of new Companies Act and 2014-15 is implementation year of Companies Act, 2013. Social disclosure index consisting of 23 items specified in notification (Amendment of schedule VII of Companies Act) issued on 27th Feb 2014 by MCA has been taken. Scoring of items is based on dichotomous scale i.e. 0 and 1. If an item is disclosed, '1' has been assigned and if an item is not disclosed, '0' is assigned. The data has been analyzed using independent samples t-test and paired samples t-test.

Item Wise Social Disclosure Scores of Companies

Item wise social disclosure scores of Maharatna and Navratna companies are depicted in Table 2. It highlights that disclosure of all the items have increased in year 2013-14 as compared to year 2014-15 both in case of Maharatna and Navratna companies. In case of Maharatna companies, two items namely Employment enhancing vocational skills and Measures for reducing inequalities faced by socially and economically backward classes have full disclosure in 2013-14. However, number of items which have been disclosed by all Maharatna companies increases to 8 in 2014-15. Further, no disclosures have been found in respect of 9 items in 2013-14 while in 2014-15, Protection of flora and fauna is only item which has not been disclosed by any Maharatna company. In case of Navratna companies, 10 items have not been disclosed in 2013-14 while in 2014-15, no disclosures are found in case of one item namely Promotion of arts and handicrafts. Further, in 2014-15 full disclosure has been found in respect of 4 items as against 1 item in 2013-14.

Table 2: Item Wise Social Disclosure Scores of Companies

Particulars	Maharatna		Navratna	
	2013-14	2014-15	2013-14	2014-15
Eradicating hunger, poverty and malnutrition	0	2(28.5)	0	1(16.67)
Promoting preventive health care	6(85.7)	7(100)	5(83.33)	6(100)
Sanitation	3(42.8)	7(100)	1(16.67)	4(66.67)
Safe drinking water	4(57.1)	7(100)	2(33.33)	4(66.67)
Promoting education	6(85.7)	7(100)	6(100)	6(100)
Employment enhancing vocational skills	7(100)	7(100)	5(83.33)	6(100)
Livelihood enhancement projects	1(14.2)	5(71.4)	0	4(66.67)
Promoting gender equality	0	3(42.8)	0	1(16.67)
Empowerment of women	5(71.4)	7(100)	2(33.33)	2(33.33)
Setting up homes and hostels for women and orphans	0	3(42.8)	0	1(16.67)
Setting of old age homes and day care centres for senior citizens	0	3(42.8)	0	1(16.67)
Measures for reducing inequalities faced by socially and economically backward classes	7(100)	7(100)	3(50)	5(83.33)
Ensuring environmental sustainability and ecological balance	4(57.1)	7(100)	4(66.67)	5(83.33)
Protection of flora and fauna	0	0	1(16.67)	1(16.67)
Maintaining quality of air, soil and water	1(14.2)	2(28.5)	2(33.33)	3(50)
Protection of natural heritage, art and culture	4(57.1)	4(57.1)	0	4(66.67)
Setting up public libraries	0	1(14.2)	0	1(16.67)
Promotion of arts and handicrafts	0	3(42.8)	0	0
Measures for benefits of armed force veterans, war widows and their dependents	0	1(14.2)	0	1(16.67)
Promotion of sports	4(57.1)	5(71.4)	3(50)	4(66.67)
Rural development projects	1(14.2)	6(85.7)	5(83.33)	6(100)
Funds to approved technology incubators in academic institutions	0	1(14.3)	0	1(16.67)
Contribution to prime minister relief fund or any other fund set up by central government	4	4(57.1)	2(33.33)	2(33.33)
	N=7	N=7	N=6	N=6

Note: Figures in parentheses represent percentage.

Reporting of CSR Activities

It has been observed during content analysis of annual reports that reporting of CSR activities have undergone considerable change in 2014-15 as compared to year 2013-14. In the year 2013-14, CSR activities have been reported under the head "Corporate Social responsibility"

in Management Discussion and Analysis section. However, in year 2014-15, CSR activities have been reported in separate report on CSR activities as part of annual report (Annexure to Director's Report) according to prescribed format under the Companies Rules, 2014.

Social Disclosure of Maharatna and Navratna Companies

Company-wise disclosure scores of selected Maharatna Companies have been shown in Table 3. It shows that disclosure scores of all the Maharatna companies have improved in 2014-15 as compared to 2013-14. Three companies namely SAIL, ONGC and NTPC bagged Rank 1 in terms of social disclosure score in 2013-14 and ONGC continued to maintain same position in 2014-15. BHEL has showed considerable improvement in disclosure scores and has shifted to Rank 3 in 2014-15 from Rank 6 in 2013-14. However, reverse trend has been observed in case of SAIL which has slipped from rank 1 in 2013-14 to rank 4 in 2014-15. Coal India Ltd. has showed lowest disclosure scores in both the years.

Table 3: Disclosure Scores of Maharatna Companies

Companies	2013-14		2014-15	
	Disclosure Score	Rank	Disclosure score	Rank
BHEL	6(26.08)	6	15(65.21)	3
Coal India Ltd.	3(13.04)	7	8(34.78)	7
SAIL	10(43.47)	1	14(60.86)	4
ONGC	10(43.47)	1	19(82.60)	1
Indian Oil Corporation	8(34.78)	4	10(43.47)	5
NTPC	10(43.47)	1	17(73.91)	2
GAIL	7(30.43)	5	9(39.13)	6

Note: Figures in parentheses show percentage.

Table 4 highlights that disclosure scores of all companies have improved in 2014-15 as compared to 2013-14. Further, ranks of almost all companies have shuffled in 2014-15 except Oil India Limited. In 2013-14, Bharat Electronics Limited has shown highest disclosure scores of 43.47 per cent followed by Engineers India Limited (34.78 per cent) while in 2014-15, Engineers India Limited (69.56 per cent) has lead all other companies in terms of disclosure scores. Bharat electronics has slipped from rank 1 in 2013-14 to rank 3 in 2014-15 as its disclosure scores have remained constant over the years.

Table 4: Disclosure Scores of Navratna Companies

Companies	2013-14		2014-15	
	Disclosure Score	Rank	Disclosure score	Rank
Container Corporation of India	6(26.08)	3	9(39.13)	4
Bharat Electronics Limited	10(43.47)	1	10(43.47)	3
Bharat Petroleum Limited	5(21.73)	4	13(56.52)	2
Engineers India Limited	8(34.78)	2	16(69.56)	1
Oil India Limited	5(21.73)	4	9(39.13)	4
Hindustan Petroleum Corporation Limited	5(21.73)	4	7(30.43)	6

Note: Figure in parentheses shows percentage.

Mean social disclosure scores of Maharatna and Navratna companies have been shown in Table 5. It has been observed that mean social disclosure scores of Maharatna companies are higher as compared to Navratna companies in both the years i.e. 2013-14 and 2014-15. In order to check whether difference is significant between Maharatna and Navratna companies, independent samples t-test has been applied.

Table 5: Mean Social Disclosure Scores

Companies	2013-14	2014-15
Maharatna Companies (N=7)	7.71	13.14
Navratna Companies (N=6)	5.57	9.14

Following hypotheses have been formulated

H01 - There is no significant difference in mean social disclosure scores of Maharatna and Navratna companies in year 2013-14.

H02 - There is no significant difference in mean social disclosure scores of Maharatna and Navratna companies in year 2014-15.

Table 6 depicts that there is no significant difference in mean disclosure scores of Maharatna and Navratna companies at 5 per cent level of significance in year 2013-14. Thus, H01 stands accepted. Similarly, H02 is accepted at 5 per cent level of significance i.e. there is no significant difference in mean disclosure scores of Maharatna and Navratna companies in 2014-15. Thus, it is evident that public sector enterprises irrespective of their status are making disclosure of their social activities and difference in mean disclosure scores of Maharatna and Navratna companies is not at all significant.

Table 6: Results of Independent Samples t-test

<i>t-test for Equality of Means</i>					
<i>Years</i>	<i>t</i>	<i>df</i>	<i>p-value</i>	<i>Mean Difference</i>	<i>Std. Error Difference</i>
2013-14	.913	11	.381	1.214	1.331
2014-15	1.166	11	.268	2.476	2.123

Social Disclosure Scores of Maharatna and Navratna Companies prior to implementation and on implementation of New Companies Act, 2013

In order to check whether there is any significant difference in social disclosure scores of companies in 2013-14 and 2014-15, paired samples t-test has been applied for both Maharatna and Navratna companies. Following hypotheses have been formulated in this regard.

H03 - There is no significant difference in mean social disclosure scores of years 2013-14 and 2014-15 in case of Maharatna companies.

H04 - There is no significant difference in mean social disclosure scores of years 2013 -14 and 2014-15 in case of Navratna companies.

The results of paired samples t-test have been shown in Table 7. It depicts that there is significant difference in mean social disclosure scores of companies in year 2013-14 and 2014-15 as p value is significant at 5 per cent level of significance ($p < 0.5$). Thus, H03 stands rejected. It can be concluded that mean social disclosure scores of Maharatna companies are significantly higher in year 2014-15 (Mean=13.14) as compared to 2013-14 (Mean=7.71).

Table 7: Paired Samples t-test for Maharatna Companies

		<i>Paired Differences</i>			<i>t</i>	<i>df</i>	<i>P</i>
		<i>Mean</i>	<i>Std. Deviation</i>	<i>Std. Error Mean</i>			
Pair 1	2013-14 - 2014-15	-5.429	2.992	1.131	-4.800	6	0.003*(significant)

Table 8 highlights results of paired t-test in case of Navratna Companies. It has been observed that p value is significant at 5 per cent level of significance ($p < 0.5$). Thus, H04 is rejected depicting that there is significant difference in mean disclosure scores of Navratna companies in 2013-14 and 2014-15. Thus, it is concluded that mean social disclosure scores of Navratna companies are significantly higher in year 2014-15 (Mean=9.14) as compared to 2013-14 (Mean=5.57).

Table 8: Paired Samples t-test for Navratna Companies

		<i>Paired Differences</i>			<i>t</i>	<i>df</i>	<i>P</i>
		<i>Mean</i>	<i>Std. Deviation</i>	<i>Std. Error Mean</i>			
Pair 1	2013-14 - 2014-15	3.571	3.359	1.270	-2.813	6	.031*(significant)

Table 9 depicts that CSR expenditure has increased in year 2014-15 as compared to 2013-14 for all Maharatna companies except Coal India Ltd. The Company has shown negative difference due to decline in its profit in 2014-15. However, total expenditure has increased by 36 per cent in 2014-15 as compared to 2013-14 by all Maharatna companies.

Table 9: Expenditure on CSR Activities by Maharatna Companies

(Figures in Rs. crores)

<i>Companies</i>	<i>2013-14</i>	<i>2014-15</i>	<i>Difference</i>
BHEL	108.6	165	56.4
Coal India Ltd	25.99	24.04	(1.95)
SAIL	44.74	78	33.26
ONGC	341.25	495.23	153.98
Indian Oil Corporation	81.91	112.95	31.04
NTPC	187.66	205.18	17.52
GAIL	91	118.67	27.67
Total	881.15	1199.07	317.92

Note: Figure in parentheses shows negative value

Table 10 depicts expenditure on CSR activities by Navratna Companies. The companies have shown positive difference in expenditure in all cases which implies increase in CSR expenditure in 2014-15 as compared to 2013-14. Total expenditure has increased from 158.42 crores in 2013-14 to 267.82 crores in 2014-15 registering an increase of 69 per cent in 2014-15.

Table 10: Expenditure on CSR Activities by Navratna Companies

(Figures in Rs. crores)

<i>Companies</i>	<i>2013-14</i>	<i>2014-15</i>	<i>Difference</i>
Container Corporation of India	10.38	20.58	10.2
Bharat Electronics Limited	10.55	22.37	11.82
Bharat Petroleum Limited	34.38	76.01	41.63
Engineer India Limited	6.48	16.6	10.12
Oil India Limited	72.89	98.19	25.3
Hindustan Petroleum Corporation limited	23.74	34.07	10.33
Total	158.42	267.82	109.4

Conclusion

It is clearly evident that disclosure of CSR activities has increased considerably in 2014-15 (after implementation of Companies Act, 2013) as compared to 2013-14 in case of all public sector enterprises irrespective of their status. Results of paired samples t-test show that mean disclosure scores of all public sector companies are higher in year 2014-15 as compared to

2013-14. Thus, new Companies Act has lead to improved disclosure of CSR activities. Moreover, it has dedicated a separate report for CSR activities in annual report of companies which shows importance being attached to CSR activities in the new Act. It has been observed that Health care and Education have gained considerable attention in 2014-15 as their full disclosure has been found both in case of Maharatna and Navratna companies. Further, it has been found that social expenditure of companies has increased in 2014-15. Thus, implementation of new companies Act, 2013 has not only improved the quality of social disclosures but has also increased the social expenditures of public enterprises in monetary terms.

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