Social Responsibility Reporting: Evidence from India’s Leading Corporations

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Introduction

• Complexity of the global economy, ↑ demand for accountability

• Social reporting is on the rise
  – 1977: France 1\textsuperscript{st} to mandate social reporting
  – 1996: Denmark
  – 1999: Dutch followed by Norway, Sweden

• Level of development key indicator (Kolk, 2003)

• Interesting trends - emerging economies
  – 2010: South Africa - integrated reporting – all listed
  – 2014: India - firms with profit $100 million – 2% on CSR
Motivation

• Scant research on social reporting in general and in emerging economies in particular
  – Proactive social responsibility - a luxury
  – Profit trumps social responsibility until economic development more established
  – Rather than ethical/stakeholder imperative
    • CSR seen as ‘an alternative to government’
    • Firms fill in governance gaps - weak institutions, corrupt and resource-poor nation-states
    • Health care, education, infrastructure
  – Low demand for CSR as citizens are price/brand sensitive
  – Weak media and civil society

(Cuesta-González, Muñoz-Torres, & Fernández-Izquierdo, 2006; Rivera & De Leon, 2004; Blowfield, 2007; Matten & Moon, 2008; Kumar, Murphy, & Balsari, 2001).
Research Questions

• To what extent do leading corporations in India engage in social reporting?

• Does this reporting vary by:
  – Ownership identity (foreign vs. domestic, and within domestic, government vs. family owned)
  – Industry affiliation (consumer proximate and environmentally sensitive)
  – Market orientation (inward vs. outward)?
Why India?

• 17% of the world’s population and largest democracy
• 4\textsuperscript{th} largest economy - 7% growth rate since 1997
  – Reason why susceptible to negative externalities
• 5X the ambient particulate matter concentrations compared to the US (China 7X) in 1995
• $CO_2$ emissions will $\uparrow$ from 1.1 billion in 2007 to between 3.2 and 5.1 billion tonnes by 2021
• Communal culture
  – Disclosure as seen as handing over competitive advantage
  – Discretion rewarded over publicity
• “Implicit CSR” or old philanthropy
Theoretical Perspectives

• Two influential and complementary theories
  – Explain why firms modify their structure/operations in response to external demands

• Legitimacy theory
  – Seek long-term survival
    • Isomorphic pressures – peer pressure

• Stakeholder theory
  – Resource dependence – stakeholder power
    • Instrumental vs. altruistic

Wood, 1991; Crawford & Sobel, 1982; Maon, Lindgreen & Swaen, 2009; Valand & Heide, 2005; Mitnick, 2000; Clarkson et al., 2008)
Social Reporting

• Literature distinguishes between CSR principles, processes, and outputs
  – Principles: motivation – ‘cheap talk’ as non-binding
  – Processes: institutionalize new systems, procedures, structures – ‘walking the talk’
  – Outputs: audit/report – ‘when the rubber hits the road’

• Social reporting or outputs
  – Communicate commitment, relevance
  – Concrete evidence, clear verifiable data, 3rd party
  – Hard disclosures not easily copied
  – Significant commitment of resources

(Wood, 1991; Crawford & Sobel, 1982; Maon, Lindgreen & Swaen, 2009; Valand & Heide, 2005; Mitnick, 2000; Clarkson et al., 2008; Caroll, 1979; Preston, 1981; Perini, 2005)
Data

• No KLD data for India; original database
• Content analysis of corporate websites, annual reports, sustainability reports
• 121 largest corporations in India
• Firm-specific measures (41)
  – Social/environmental report
  – UNGC/GRI/CDM/CDP
  – Data – energy/waste/water/effluent
  – Sustainability indices
  – Employee attrition/injury/fatality/lost time
  – Awards – CSR/environment/safety/HRM
Methods

• Independent variables
  – Ownership: foreign, government, family
  – Consumer proximate (banking, retail, IT, utilities, pharma)
  – Environmentally sensitive (auto, manufacturing, oil, construction)
  – Outward-oriented: export earnings/total

• Control variables
  – Profit after tax, age

• Dependent variables
  – Community, environment, employee

• Generalized Linear Model (GLM) logistic regression
Findings

• 1/3\textsuperscript{rd} non-financial reports; 85% sustainability
  – 1\textsuperscript{st} report published in 2000
  – Over 50% - annual
  – 30% UNGC signatories
  – 1/4\textsuperscript{th} publish in GRI format; 90% externally audited

• 40 % received carbon credit approvals

• 24% Carbon Disclosure Project participants

• 1/4\textsuperscript{th} disclose some emission, energy, waste, effluent, and water data
Findings (2)

• Awards (2010-2012):
  – Governance - 17%; Environment - 65%; CSR - 60%; Safety - 42%; HRM - 60%

• Sustainability index
  – Over 1/3rd listed on S&P’s ESG index
  – 1/5th on Dow Jones Sustainability Index

• Bloomberg discloses ESG scores for ~ 45%

• Consistent with KPMG's (2011) State of Global CSR report – 34 nations
  – India in the ‘Leading the Pack’ category (EU; Taiwan)
  – Ahead of US, Canada, Japan, China, Singapore and Korea.
Findings (3)

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<th>Interest</th>
<th>Predictor Variables</th>
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<td>Foreign</td>
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- Ownership identity has no influence
  - Except family-firms on environment
- Industry affiliation little effect
  - Environmentally sensitive firms on employees
- Export-oriented firms had a strong/significant effect on all dimensions
Limitations

• Single-country study
  – Cultural/political/institutional environments constant
  – Generalizability to be established
• Do not consider negative disclosure
• Used an equal weight scoring approach
  – Do not evaluate quality
Implications

• Emerging economy firms motivated to
  – Remove information asymmetries that generate uncertainty in investment decisions
  – Obtain capital at the lowest possible cost

• Grasped the economic benefits of social reporting
  – Higher efficiencies, lower costs and risks

• Influence of global markets can transcend socio-cultural differences
  – Comes down to who your audience is

• Question is how to leverage strength of communal societies and extend learning to domestic firms?
Contribution

• 1st systematic study on social reporting in India
• Original database benchmark for longitudinal studies
• Adds to CSR literature on emerging economies
• Managers: insight on how social reporting can be used as a strategy to enhance legitimacy
  – Introspective tool for those examined
• Government: ideas on how to incentivize CSR activities and disclosure
• Investors: CalPERS delisted firms
Thank you!

Questions