

# **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<sup>st</sup> 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

# 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<sup>th</sup> 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<sub>2</sub> emissions will ↑ 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

# 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, 3<sup>rd</sup> party
  - Hard disclosures not easily copied
  - Significant commitment of resources

# 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<sup>rd</sup> non-financial reports; 85% sustainability
  - 1<sup>st</sup> report published in 2000
  - Over 50% - annual
  - 30% UNGC signatories
  - 1/4<sup>th</sup> publish in GRI format; 90% externally audited
- 40 % received carbon credit approvals
- 24% Carbon Disclosure Project participants
- 1/4<sup>th</sup> 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 1/3<sup>rd</sup> listed on S&P's ESG index
  - 1/5<sup>th</sup> 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)

Interest	Predictor Variables					
	Foreign	Public	Family	Proximate	Dirty	Outward
Community	ns	ns	ns	ns	Ns	6%↑*
Environment	ns	ns	8%↑*	ns	Ns	15%↑****
Employee	ns	ns	ns	ns	6%↑*	9%↑****

- 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

- 1<sup>st</sup> 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

