

# CONSTRUCTION OF CORPORATE SOCIAL RESPONSIBILITY INDEX: MEASUREMENT OF MANDATORY DISCLOSURE

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## ABSTRACT

**Purpose:** The Main objective of this study is to develop Corporate Social Responsibility Index and to examine its relationship with financial position of the companies. This study also focuses on disclosure practices of companies.

**Methodology:** The Sample consists of thirty listed companies is selected from BSE SENSEX 100. These companies represent different industries in India. Content Analysis is used to develop the index and correlation and multiple regression model is used to investigate the relationship among variables.

**Findings:** Average CSR disclosure practices of manufacturing companies are improved and scored more over the non-manufacturing companies. Total Assets and Capital Structure of the companies influences its disclosure practices. The Model is accepted as it is statistically significant.

**Research Implications:** This particular study resulted in developing a new Index for measurement of CSR disclosure which is mandatory in India. This study helps in knowing the discloser practices of various manufacturing and non-manufacturing companies in India.

**Key Words:** *CSR Disclosure, Revenue, Assets, Profitability, Leverage and Companies Act*

**JEL Classification:** M14, G3, G32, G34

## INTRODUCTION

Government and regulatory bodies have taken several steps to improve disclosure practices among corporate houses. Transparency and effective disclosure among companies helps the stakeholders to take decisions effectively. Corporate Social Responsibility practice are not new to Indian companies as they are active in social engagement programmes even before act made it as mandatory. One of the ways Companies can distinguish from their peers is through adhere to governance and effective disclosure of their activities including societal and environmental engagement. Over the period of time Stakeholders perception has changed in observing the companies beyond the financial aspects. Ethical or Responsible Stakeholders, a new group is emerged to evaluate the corporate bodies based on the factors like social, ethical and environmental engagement. This made the business houses to disclose more their connection with society and environment. Corporate Social Responsibility has become mandatory exercise to the group of companies as per the definition of the companies act. This is included in the provisions of companies act with an objective of defining the framework for CSR and to maintain the uniformity in disclosure. The main objective of publishing sustainable engagement activities is to justify their existence and portraying their continuous operations (Daub, 2007). Demand for social action and environmental engagement has increased in the emerging economies like China and India, and these two economies are marching towards making these activities as mandatory among the corporate houses (Afsharipour and Rana, 2014). The term corporate social responsibility has taken different meanings over the period of time as its importance is increasing

among corporate houses and researchers. *Lin* (2010) defines that (Christoph Lattemann et al) has mentioned that strategic volunteerism, social or impact marketing strategic philanthropy and corporate social activities go together in research area. According to Companies act 2013, such activities or programmes shouldn't be the part of regular business operations and not restricted to their employees.

## LITERATURE REVIEWS

Several previous studies are done in measuring and constructing the CSR disclosure practice both in India and other countries. Majority of the studies have adopted content analysis to construct the index and studied with different objectives. CSR guidelines as per Global Reporting Initiative, The national voluntary guidelines are compared with self prepared CSR guidelines of automotive companies for the period of one year, CSR rankings are also considered for the study. Rankings given by different governing authorities are different (Bhatia and Gupta, 2015). Social performance and financial performance has a significant relationship, social disclosure is measured with the help of content analysis. Weights were assigned between the scores of 0 to 3 and these variables were studied with long term financial position and profitability position of the companies, results show that social performance has a significant relationship with total assets of the bank entities and also claims the significant relationship with liquidity position and social performance (Yimaz, 2013).

(Kansal, Joshi and Singh, 2014) have analyzed the relationship between corporate social responsibility disclosure and corporate characteristics i.e. size, sales, total assets and other financial aspects like profit after tax, risk and social image. Authors have constructed social responsibility index under the themes like Environment, Energy, Product, human resources, emission and Community development. Scores were assigned between 0 to 5 based on the extent of disclosure made by the selected corporate entities. Results are proved that older entities make greater social disclosure, corporate reputation plays a significant role in companies' disclosure practices. Type of industry, firm size and profitability influences positively in responsibility disclosure practices. (Chaudhri and Wang, 2007) have examined the style of CSR communication of top IT companies of India, authors have found that companies have not projected their CSR related information's to the greater extent in websites and claims that companies have poor CSR communication mechanism which is influenced by management. Accounting conservatism is an important area to be considered for such companies practicing CSR activities, as it provides high quality of financial information, (Patro and Pattanayak, 2017) provided evidence that earnings management influences CSR practices and also shown that accounting conservatism does not influence CSR practice. Chandniaswal & Poojarani (2014) has studied the effect of size of the company on CSR score of the selected companies of India. Log total assets value is considered to determine size of the company and various factors of sustainability of both community and environment is considered to calculate the score of companies. Results of fifty company's shows that there was a significant influence of size of the assets in disclosure practices of the companies. Authors have also studied the areas in which selected companies more engaged in CSR activities, sustainability and health and safety were the major concentrated areas of CSR. Dharmapala & Khanna (2016) have studied the impact of compulsory CSR expenditure on various levels. Reverte (2009) measured the determinants of CSR disclosure practices of Spanish companies. Market capitalization of companies, their media exposure and type of the industry influences the disclosure practices, on the other hand neither the leverage nor profitability of the companies has a relationship with CSR disclosure.

## RESEARCH GAP

Corporate Social Responsibility disclosure concept is not new in research area as many studies have contributed to this field. In India earlier studies have constructed mainly based on considering the factors like Environment, Human resources, Community development and sustainable practices of the companies. But after making CSR activity as mandatory, not many studies have attempted in constructing the Index. CSR Policy, CSR Committee, CSR areas, CSR budgets, Planning and Implementation strategies, CSR Expenditure are the major areas of CSR disclosure as per the new companies act. Provisions of the act clearly states that any expenditure incurs during regular course of business cannot be claimed as CSR expenditure including welfare expenditure incurred exclusively towards employees. Since many changes

were brought in the framework of CSR there is a requirement for a new index which can measure the CSR practices of the companies.

## DATA AND METHODOLOGY

The main objective of this study is to construct the CSR Index by considering new provisions and disclosures as per companies act. Study also aims at finding out the relationship between CSR Disclosure scores and its financial performance. Annual reports and CSR policy document are used to identify their disclosure practices, Content analysis is used to derive and construct the Index for the period between 2014-15 and 2016-17. Financial data are also collected from the respective company's annual report. Forty companies represent different industries of S&P BSE 100 has been considered for the study.

## HYPOTHESIS

H1 CSR discourse practices are more in Manufacturing Industry compared to Non-Manufacturing Industry

H2 There is a significant linear relationship between CSR Disclosure and Log Total Assets

H3 There is a significant linear relationship between CSR Disclosure and Log Profit After Tax (PAT)

H4 There is a significant linear relationship between CSR Disclosure and Log Total Revenue

H5 There is a significant linear relationship between CSR Disclosure and Capital Structure

## Construction of Corporate Social Responsibility Disclosure Index (CSDI)

Some of the studies have constructed the index with exhaustive list of social and environment disclosure practices of companies (Hackston and Milne, 1996; Pattern 1991) and some of the studies done in India has modified and added some of the India's specific requirements like reservations, marriages, meals at schools and carbon footprints disclosure. (Kansal, Joshi and Singh, 2014) have constructed the CSR index considering and adding some after changes in the scope of disclosure of carbon emission and harmful gases. These disclosures are based either based on Global Reporting system or general social, environment and governance practices of the companies. This Study has constructed Index based on companies act guidelines and also common disclosure practices. Total 21 items are generated after doing the content analysis of annual reports and CSR policies. Cronbach's alpha was run to assess the reliability of these items.

Table 1

### Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based N on Standardized Items	Mean	Variance	Standard Deviation	
.798	.825	21	64.24	150.089	12.251

The above table shows the results of reliability statistics of the disclosure items. The Cronbach's alpha value is 0.798 indicates the high consistency of disclosure items.

The disclosure for the year between 2015 – 2018 has been calculated based on 0-5 rating scale to measure CSR. The scores are assigned based on the following parameters:

0 if the item is not disclosed

1 if one or less than one sentence or information is disclosed

2 if more than one sentence or information is disclosed

3 if only one quantitative figure is disclosed

4 if disclosure is more detailed without quantitative items

5 if the disclosure is expressed in quantitative terms with detailed information

Table 1.1 shows the sample size taken for this study and representation of various industries. It is observed that study has taken equal representation of companies from Automobile, Pharmaceutical and Banking industry and occupies major portion of sample group, followed by Engineering, Cement and household products Industries. This shows data has the representation of both Manufacturing and Non-Manufacturing industries.

**Table 1.1**

**Industry wise Sample Group**

Industry	Frequency	Percentage
Automobile	6	15%
Pharmaceutical	6	15%
Information Technology (IT)	3	8%
Cement and Construction Material	4	10%
Consumer Food	2	5%
Household & Personal Products	4	10%
Banks and Financial Companies	6	15%
Engineering and Electric Equipment	5	13%
Miscellaneous	4	10%
Total	40	

## DATA ANALYSIS AND DISCUSSION

This section shows various tests and analyses conducted to meet the objectives of the study. Corporate Social Responsibility Disclosures are captured based on index developed in this study. Average disclosure scores of the sample companies for are shown in Table 1.2. As per the table manufacturing companies disclosure practices were low in the year 2015 but gradually increased over the period of time. Non manufacturing company's disclosure was quite consistent in the initial year and it is increased in the year 2018. It is cleared that over the period of four years quality and contents in CSR disclosure is increased and manufacturing industries have scored more over non-manufacturing industry.

*Table 1.2: Mean scores of CSRD*

	Years			
	2015	2016	2017	2018
Manufacturing Companies (Mean Score)	53.56	56.67	58.93	63.85
Non Manufacturing Companies (Mean Score)	56.33	59.27	59.41	60.25

*Source: Authors compiled*

## REGRESSION MODEL

The following multiple regression model is used to prove the defined hypothesis

$$\text{Model: CSRD Score} = \alpha + \beta_1 \text{LogPAT} + \beta_2 \text{LogTA} + \beta_3 \text{LogLev} + \beta_4 \text{LogTR} + E$$

Where

LogPAT: is the log of Profit After Tax  
 LogTA: is the log of Total Assets  
 LogLev: is the log of Leverage  
 LogTR: is the log of Total Revenue  
 E : is the error term

*Table 1.4 Model Summary*

Model	Coefficient	Standard Error	t-statistics	Prob
Assets	4.7245	2.3462	2.013681	0.0000*
Leverage	3.8979	1.1338	3.437880	0.0001*
Profit	-0.0004	0.0003	-1.050193	0.3008
Revenue	5.4846	3.4952	1.569180	0.1252

\*Indicate statistically Significant at the 5% level

R square = 0.579626

F-statistics = 12.06479

Durbin-Watson Test = 1.596718

Prob (F-statistic) = 0.000

As per the multiple regression model output table selected company's assets and leverage i.e. capital structure of the company has a significant relationship with the respective company's CSR disclosure practices. It also shows that irrespective of the profitability position and revenue companies have shown consistency in disclosing CSR contents. R square value of the model indicates that selected 57.9% variations of dependent variable can be influenced by Independent variables. Probability of F statistics value is statistically significant as it's less than 0.05, this means model is fit.

## CONCLUSION

After making expenditure on CSR activities as mandatory companies have taken several steps to accommodate the changes as per the law. As companies vary in terms of capitalization, capital structure and profitability their disclosure pattern also varies and the same is confirmed by this study. Companies have to follow the uniformity in disclosure of CSR items as per the law and its location in annual report has to be mentioned clearly. These kinds disclosures helps for the stakeholders to take effective decisions.

## SCOPE FOR FURTHER RESEARCH

Not many studies are conducted in the field of CSR after it has become mandatory in India. Further studies can be done in understanding the disclosure practices how it varies among the various industries and also between government owned companies with public limited companies. This study has taken only selected financial aspects other financials like EPS, Share Price, market capitalization, liquidity and others can be taken to understand the relationship with their disclosure practices

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