

Corporate Social Reporting & Disclosure: Legal and Regulatory Environment in India

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Abstract

This study is undertaken to identify and understand various regulations, provisions and to shape-up the legal and regulatory framework or structure in India with reference to corporate social reporting and disclosure. The reporting and disclosure has been getting a lot of attention in recent times due to the factors like expansion of growing form of company as a type of organization, shift in shareholder to stakeholders concept, increase in shareholders base, increase in informational needs of various stakeholders, the amendments in reporting and disclosure laws in various countries, growing interest and responsibilities of various professional accounting bodies in India.

This disclosure cannot be avoided by the company for the reasons like attracting and keeping resources, helping investors to select best portfolios, to discourage ignorance and uncertainty for decision regarding favourable behavioral changes in relation to the enterprise. Therefore, it is important to take a research review of the legal and regulatory environment in India to understand the application, implementation and implications of this environment. This research study is sum-upped with the inter-relationship between the identified fragments of the legal and regulatory environment

KEYWORDS: Reporting and Disclosure System, Regulatory Environment and Stakeholders.

Introduction:

Reporting system is communication of authentic and useful information, generally through various statements, financial accounts, Directors' and Annual Reports to the users of information in particular and others in general. Earlier research finds that reporting and or disclosure is an explanation, illustrations, exhibit attached to financial statements, or represented in a report containing a fact, opinion, or detail required or helpful in the interpretation of the statements or report (Cooper & Yuji, 1984), movement of information from private domain to public domain (American Accounting Association, 1977), process of communication with outside world (Chander, 1992), by the reporting entity to outside users for the purposes of decision making.

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disclosure, laws in various countries, growing interest and responsibility of various professional accounting bodies in India and abroad (Chander, 1992).

This disclosure cannot be avoided by the company for the reasons like attracting and keeping resources (Turley & Taylor, 1986), helping investors to select best portfolios, to discourage ignorance and uncertainty, for decision regarding favourable behavioral changes vis-à-vis the enterprise.

Objectives:

1. To categorized legal and regulatory structural set up in case of social reporting and disclosure in India.
2. To explores the legal and regulatory environment in case of social reporting and disclosure in India.
3. To identify relationship between structural set up of legal and regulatory environment in case of social reporting and disclosure in India.

Materials and Methods:

This research paper is based on secondary sources of data. For this study, the researcher had used published documents, codes, guidelines, various Laws and Acts, magazines, research journals, recommendations of related committees and various directives issued by an authentic authority. With the limitation of the political and legal boundaries of India, the researcher have taken into consideration six Acts/Code, six important institutions or institutional set-up and recommendations of three important committees.

This research study is a descriptive analysis of the historical and prevailing legal and regulatory environment in India with special reference to social reporting and disclosure applicable to corporations. The analysis of above secondary sources of information reveals that as far as legal and regulatory environment of corporate social reporting and disclosure in India is concern, it has a specific structural form. The following table summarizes this specific structure.

Legal and Regulatory Structure of Corporate Social Reporting and Disclosure in India

Sr. No.	Regulative Set-up	Sr. No.	Institutional Set-up	Sr. No.	Recommendatory Set-up
1	Criminal Procedure Code, 1898	1	Industrial Associations E.g. ASSOCHAM, etc.	1	Sachhar Committee Report, 1978
2	Factory Act, 1948	2	Institute of Chartered Accountants of India	2	Kumar Mangalam Birla Committee
3	Companies Act, 1956	3	Securities Exchange Board of India (SEBI)	3	Narayan Murthi Committee
4	The Prevention and Control of Pollution Act, 1974	4	Department of Public Enterprises (DPE)	4	Presidential Directives and Guidelines
5	The Prevention and Control of Pollution	5	State's and Central Department of		

	Act, 1981		Environmental Protection
6	Companies Bill, 2012	6	Other Statutory Authorities

Source: Researcher’s Compilation.

Result, Observations and Discussion:

An insight study of regulatory environment of social reporting and disclosure helps the researcher to develop above structural form into three primary set-ups.

- A. Regulative Set-Up,**
- B. Institutional Set-Up and**
- C. Recommendatory Set-Up.**

Criminal Procedure Code (CPC) in 1898 under Section 133 empowers the District Magistrate to abandon industries which cause water pollution. Information under section 217(2A) of the Companies Act, 1956 read with Company (Particulars of employees) Rules, also requires some information to be disclosed regarding the employees. In addition, Factories Act, 1948 makes provisions for minimum facilities for the workers and cleanliness of the factory premises. The Act also levies various penalties for noncompliance.

The section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1998 regarding the following matters. A. Conservation of energy (a) Energy conservation measures taken, (b) Additional investments and proposals, if any, being implemented for reduction of energy consumption, (c) Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods (d) Total energy consumption per unit of production in prescribed Proforma in respect of industries specified in schedule thereto. B. Technology absorption Efforts made in technology absorption in the prescribed Proforma C. Foreign exchange earnings and outgo requires (a) activities relating to exports ; initiatives taken to increase export ; development of new export markets for products and services and plan (b) total foreign exchange used and earned

In 1978, the Sachhar Committee laid the emphasis that the companies should not ignore their social responsibility and publish social accounts in annual accounts. The acceptance of concept of “social responsibility” must be reflected in the information and disclosure that the companies make available for the benefit of the shareholders, creditors, workers and community. It was suggested that as far as possible social report must be cast both in quantity and monetary terms. The committee also felt the need that the board should also report on the future plans of the company it has made, to discharge its social responsibilities and duties.

The Prevention and Control of Pollution Act, 1981 makes rules for controlling air pollution. Laws at Central Government level include Prevention and Control of Pollution Act, 1974 to control water pollution by the industries. These Acts have been supplemented by parallel state Governmental laws and bylaws.

Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the

Board consisting of three or more directors, out of which at least one director shall be an independent director.

The Board of every company referred to in sub-section (1) shall,—after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed. The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy; Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

The role of industry associations deserves a mention for example; CII has various committees for social development activities and also developed a voluntary code for its members. Chambers like FICCI, PHDCCL and Bharat Chamber of Commerce and such others have set up foundations for this purpose. So, it seems established that although legal framework for environmental exposures has been developed in much part of the world, the frameworks requiring social impact have been relatively undeveloped. Institute of Chartered Accountants of India's (ICAI) role although is appreciative, encouraging and regulating the corporate disclosure practices in India still it has not been able to bring out more concrete and innovative proposals for corporate social disclosures.

The information is required to be provided in compliance with Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme) and (Employee Stock Purchase Scheme) Guidelines, 1999, as amended. In terms of the provisions of Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employees are required to be set out in the Annexure to the Directors' report. However, having regard to the provisions of Section 219 (1) (b) (IV) of the Companies Act, 1956, the annual Report is required to be sent to all members of the Company, excluding the aforesaid information. Any member interested in obtaining such particulars may write to the Company Secretary at the registered office of the respective Company.

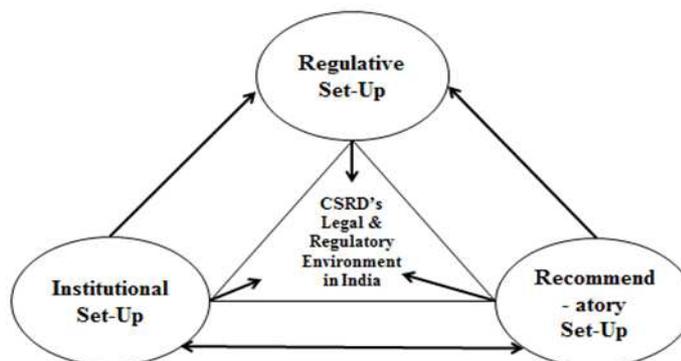
As per the policy directives of SEBI, all listed companies have to report on their environmental, social and governance (ESG) initiatives in their Annual Reports. To begin with, it has been made mandatory for the top 100 companies in terms of market capitalization to submit their Business Responsibility Reports. For the others, it is still a voluntary disclosure and reporting at this stage, but from the discernible trend-setting it appears that it would be made mandatory for other companies also in a phased manner. Therefore, Sustainability reporting and disclosure of all CSR and Sustainability activities undertaken by a CPSE is mandatory.

CPSEs would be evaluated under the MoU framework for their achievement in the area of Corporate Social Responsibility and Sustainability on the basis of certain key performance indicators. More specifically they would be judged by: the degree of involvement of the employees and the top management in internalizing the CSR and

Sustainability agenda within the organization; the degree of success in implementing the CSR and Sustainability projects they undertake during the year; the expenditure they incur on these activities (vis-à-vis the annual budgetary allocation); the effectiveness of the two-tier organizational structure in the process of planning, implementing and monitoring the CSR activities; the efforts made and the success achieved in the engagement of key stakeholders through adoption of a good corporate communication strategy; the adoption of sustainability reporting and disclosure procedures and practices. The weightage assigned to each of these non-functional performance indicators of companies would be decided during the MoU task force meetings.

The Bureau of Public Enterprises which regulates Central Public Sector Enterprises puts some additional disclosure requirements in their annual reports. For example, BPE vide its letter no. BPE-1(17)/ADV/F/69 has made it obligatory for these enterprises to disclose the expenditure incurred by them on (a) Social overheads (b) Welfare work towards weaker section of society (c) Employment to SC/BC (d) Capital expenditure on townships in their annual reports.

Presidential Directives and guidelines issued by the Government of India from time to time regarding reservation for Schedule Castes, Schedule Tribes and Other Backward Classes in letter and spirit. Liaison Officers are appointed at various Units/Offices all over the Country to ensure implementation of the Government Directives. Government Directives need public companies to disclose information on reservation for Persons with Disabilities and Ex-Servicemen and their representation.



Legal & Regulatory Structure Figure 1

Figure-1 explains the Inter-Relationship between “Segments of Structural Set-Ups of Legal and Regulatory Environment of Corporate Social Reporting and Disclosure”. It shows that at first the disclosure developed as recommendatory and voluntary by few Committees then it was made as recommendatory and mandatory by some of the professional and regulating institutional and after practicing this for few years it was converted into lawful provisions and enactment of some of the Laws. Thus, in India identified segments of structural set-ups are interdependent. However, The Institutional Set-Up and Recommendatory Set-Up are forming as base for the Regulative Set-up.

Conclusion:

The companies have the tendency of complying with only mandatory requirements regarding disclosures. The fact that almost in all the countries, the companies disclosed the information which is compulsorily required by law. Epstein (1976) made a similar observation when they attributed the increase in corporate social disclosure due to pressures from government regulatory bodies like Securities Exchange Commission/Boards. The above research with regard to social reporting and disclosure shows that the need for social reporting and disclosure is well recognized in the legal and regulatory environment in India.

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