Corporate Social and Environmental Disclosure in India: A Comparative Study of the Building Material and Brewery Industry

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Abstract

This study investigates the level of corporate social environmental disclosure among listed companies in the brewery and building material industry in India. The corporate annual reports for the periods 2004-2008 were utilized as the main source of secondary data. While the content analysis technique was used as a basis of eliciting data from the annual report, the student t-test statistics was used in the process of analysing if there was a significant difference in the level of corporate social environmental disclosure between the sampled industries. The paper as part of its findings revealed that there is a significant difference in the level of corporate social environmental disclosures between the selected industries. The paper therefore concludes that corporate social environmental disclosures among the selected listed companies is basically very low and still at its embryonic stage. The paper therefore recommends that corporate social environmental disclosure themes and evidence must be established to provide foundation for improving environmental information disclosures among companies.

Keywords: Corporate social environmental, Brewery, Building material, Annual reports, Industry, India

Introduction

The environment has become a crucial concern in today‘s ecological, social and economical set up. The retention and improvement of the quality of environment has become a big issue for the business world. Business houses and corporate enterprises are held responsible for ensuring a sustainable environment as their activities exerts tension over the environmental structure. Environmental accounting has emerged during the last two decades in response to these issues. Industrial activity has a large impact on the environment. Recent concerns about global warming and emerging emissions trading market for greenhouse gases have intensified stakeholders' interest in corporate environmental activities and its impact (Anderson, 1989). Response to this increase in interest has varied across corporations and across countries. While for most part of the developed countries of world, environmental reporting has developed voluntarily (e.g., through voluntary standards such as the global reporting initiatives). However, this is not the same in developing countries (Azzone, Manzini and Noci, 1996). Corporate social environmental responsibility has grown to include environmental matters over the years as environmental issues such as environmental pollution and environmental litigations have become more prominent economic, social and political problems throughout the world. These have put force for corporations to engage into environmental responsibility including environmental accounting and reporting matters. As argued by Margolis and Walsh (2003) "*From society's perspective,*

creating wealth and contributing to material wellbeing are essential corporate goals. However, restoring and equipping human beings, as well as protecting and repairing the natural environment, are also essential objectives? Companies may be well designed to advance the first set of objectives, yet they operate in a world plagued by a host of recalcitrant problems that hamper the second set". Nevertheless, based on the increasing pressure and heightened interest from stakeholders for voluntary environmental engagement, this study specifically looked at the level of corporate social environmental disclosure among firms in the brewery and building material industry in India.

Scope of Study

This study seeks to find out whether there is a significant difference in the level of corporate social environmental disclosures between the selected industries. This study focused on listed companies because of the easy accessibility of the mandatory disclosure of companies' annual reports as specified by the stock exchange commission.

Theoretical Background of Corporate Social Environmental Disclosure

Though Gray, Kouhy and Lavers (1995) consider corporate social disclosure as being the subject of substantial accounting research, it lacks a coherent theoretical framework. Gray (2000) claims that there has been significant growth in environmental and social auditing and reporting since the 1990s. Possible explanation for this trend is not unconnected with business firms' desire to create, maintain or repair their societal legitimacy. Arguably, legitimacy theory is the more probable explanation for the increase in environmental disclosures since the early 1980s (O'Donovan, 2002). Other researchers that have agreed to the dominance of Legitimacy theory as a more profound explanation to corporate social and environmental reporting include (O'Donovan, 1999; Walden and Schwartz, 1997; Hooghienstra, 2000 and Wilmshurst and Frost, 2000). The theory seeks to explain attempts by corporate entities to narrow any perceived legitimacy gap as an effort to avoid sanctions or threats to their survival. Legitimacy theory suggests that businesses operate in society via an expressed or implied social contract upon which their survival and growth are dependent. Carroll (1989) indicates the terms of the social contract between business and society are largely articulated through laws, regulations, and shared understandings. In addition to market forces, laws and regulations provide the criteria of appraisal and evaluation, of success and failure, of business enterprises. Changes in laws and regulations that limit the activities of business are normal phenomena. A dichotomy exists between the value system of organisations and those of the society. Legitimacy exists at the organisational level when there is congruence between organisation and society value system. Institutional theory, unlike legitimacy theory specifies how society expectations are met and gained by institutionalising norms and rules. Some code of behaviour to earn, nurture and maintain societal expectations; and thus create a positive organisation-society interface. Resource dependence theory concerns itself with the strategy organisations adopt in drawing resources from the environment. This position is imperative because organisations are interdependent with selves and the environment. The resolution by organisations of different and conflicting expectations of different stakeholders is what stakeholder theory engages in. This is more necessary because of divergent impacts different stakeholders have on organisations. In spite of the diversity in their level of analysis and specificity, the various theories are united in their resolve to advance and sustain positive organisation – society interface. Therefore being guided by the legitimacy theory, this paper seeks to find out whether there is a significant

difference in the level of corporate social environmental disclosure between the selected industries.

Prior Research Studies

Deegan (1994) conducted a study on the incentives of Australian firms to provide environmental information within their annual reports voluntarily. A discussion is given of how environmental lobby groups may impose wealth transfers on the firm, and of how environmental disclosures within annual reports may serve as means of reducing political costs. Using the political cost framework, hypotheses were developed which linked the extent of environmental disclosures with a measure of the firm's perceived effects on the environment. A sample of 197 firms was obtained from Australian Graduate School of Management (AGSM) annual reports file for the year 1991. The results indicate that firms which operate in industries, which are perceived as environmental damaging, are significantly more likely to provide positive environmental information within their annual reports than are other firms.

Halme and Huse (1997) Investigates the relationship between corporate environmental reporting in annual reports and corporate governance, industry and country variables. The authors sampled annual reports for the year 1992 of 140 largest corporations from Scandinavian countries (Sweden, Finland, Spain, and Norway). The results suggest that corporate environmental reporting is highly correlated with industry variables. However, no significant relationship is found between environmental reporting and company's size, and between environmental reporting and the number of board members. From corporate governance perspective, the factors that are considered important are (1) ownership structure, (2) the board of directors, and (3) industry and country factors. Even though larger firms tend to disclose more than smaller firms, the quality is no better. The limitation of this study regards to (1) construct validity, (2) external validity and (3) internal validity. More refined and detailed measures and classification bases should be used to meet statistical criteria and to distinguish between various degrees and dimensions of environmental reporting.

Wilmhurst and Frost (2000) examined the relationship between factors perceived as important by chief financial officers in the decision to disclose and the observed disclosure of environmental information within the annual report. The survey involved a selected sample from the top 500 listed Australian companies for 1994 to 1995, which is based on the total revenue of the trading companies. Using stratified random sampling method; an initial sample of 105 companies from environmentally sensitive industry was selected. The industry groups selected were (1) chemical, (2) mining and resources, (3) oil gas and petroleum, (4) transport or tourism, (5) manufacturing, (6) construction, and (7) food and household. The result of the study showed that the factors considered most important by chief financial officers in the decision to disclose environmental information were (1) shareholders' or investors' right to information (also ostensibly to provide a "true and fair" view of operations), (2) legal obligations and "due diligence" requirements, and (3) community concerns.

Analysis of prior studies indicates clearly that there is a dearth of literature on corporate social environmental disclosures in developing countries particularly in India particularly in India where more than 80% of the total industries operating in the country discharge liquid, solids and gaseous wastes (such as suspended solids, ammonia, cyanides, phenols, phosphates, chlorides, chromium, nickel, cadmium, carbon monoxide, nitrogen oxides, sulphur oxides, particulate matter, sox, iron oxide, cement kiln dust, hydrocarbons, ammonia, acidic, salt flux, solvent

fumes and alkaline oxide emissions) directly into the environment in which they operate without adequate treatment that meets the basic international standards (Okeagu, 2008; Omofonmwan and Osa-Edoh, 2008). To this end, this study being guided by the legitimacy theory will attempt to fill this gap in literature.

Research Methodology

In other to find out the level of corporate social environmental disclosures between the selected industries, this paper has adopted the use of corporate annual reports of firms as a base for its secondary source of data. This is because annual reports are readily available and accessible. The annual reports of the selected companies within the period 2004-2008 will be used due to heighted interest and increased awareness noticed within this periods. To achieve this purpose, the content analysis method of data analysis

Conclusion

This study revealed that there is a significant difference in the level of corporate social environmental disclosures between the selected industries. The paper found that there are no mandatory requirements for companies to undergo environmental audit. The paper therefore concludes that corporate social environmental disclosures among the selected listed companies is basically very low and still at its embryonic stage and therefore needs more attention.

Recommendation

1. Corporate social environmental disclosure themes and evidence should be established to provide foundation for improving environmental information disclosures among companies.

2. This paper calls for standard setting bodies to set policy guiding and principles in order to improve the financial and non-financial environmental disclosures of listed companies.

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