



ACCOUNTING FOR SOCIAL RESPONSIBILITY: AN EVALUATION OF MANGALORE REFINERY AND PETROCHEMICALS LIMITED (MRPL), MANGALURU

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Abstract

William Clay Ford quotes "Creating a strong business and building a better world are not conflicting goals- they both are essential ingredients for long term success". Business is a socio-economic activity. It draws its input from society. With the changes taking place in the environment, it has not only compelled business enterprises to fix the objectives that consider the welfare of the society but also account and report information with regards to discharge of their social responsibility. Hence the boundaries of principles and practices of conventional accountings have been extended to such areas for social disclosure and attestation with regard to the measures of social programs.

This study regarding social accounting helps to achieve a balance among its economic, social and environmental responsibilities. An effective approach to CSR can open up new opportunities, and increasingly contribute to the corporates' ability to attract passionate and committed workforces. The data explored through the study facilitates the company to build the relationship with business in the community and with local authorities. It will also spell out the values, ethics and the relationship of the company with the stakeholders.

Keywords: Accounting, society, Social responsibility

Introduction

One of the major areas of accounting in last few decades has been accounting for society and environment which is termed as "Social Accounting". Social Accounting involves reporting of social responsibility of the business, has been a part of societies for more than hundred years. The areas covered by social accounting include pollution control, community relations, product quality, plant safety, equal employment opportunity, charitable contributions, employee benefits, and responsiveness to consumer complaints.

The firm seeks to place a value on the impact on society of its operations by accounting for social costs and contributions. It is a systematic analysis of the effects of the organisation on its shareholders, with the input from the society. It provides tools and guidelines to collect, analyse and monitor financial, social and environment data.

The Institute of Chartered Accountant of India (ICAI) also encourages companies for reporting their social performance in annual reports. The amendments of 1988 to the Indian companies act require the disclosure of "energy conservation and pollution control."

The change in the system pressurized company managers of both public and private companies to exhibit some information regarding the social activities undertaken by them in their respective annual reports both in descriptive as well as quantitative terms.

In August 2013, the Parliament has made CSR (Corporate Social Responsibility) to be mandatory. The statements advocates that those companies with net worth above Rs. 500 crore or an annual turnover of over Rs. 1000 crore must set aside 2% of average net profits of 3 years towards CSR. As a result social accounting and reporting gained its prominence in India.

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Although Social accounting in India is in gaining relevance, it is still in developing stage. There is no standard formula, (Gupta & Radhaswamy, 1972) established concepts and principles with regards to accounting for social activities of the company. Social accounting is yet to be mandated for private companies. As the result many companies do not follow this part of accounting. There is no cadre for social accountants. The company may fail to prepare accurate statements.

Objectives of the Study

The primary aim of the study is to analyze the accounting and reporting practices of MRPL, Mangalore during the past 5 years with respect of social activities and contribution. The other purpose with which the study is conducted may be as follows:

- The study aims to determine the impact of such disclosure on the various factors of the company.
- To understand the net social contribution on MRPL towards various section of society.
- To identify the ways of planning and organizing CSR activities.
- To draw up conclusions and suggestions through the study.

Statement of the Problem

The traditional accounting has focused on establishing accounting framework that measures corporate success based on the maximization of shareholders' value by the level of profits made and the same accounting procedures are followed by most of the companies even today. Many ventures are judged solely by their financial performance even when their activities have a lot of social impacts. This is due to lack of accounting policies for reporting and disclosure. The study will seek to provide disclosure of various social activities undertaken by MRPL, Mangalore and determines the impact of social accounting on the financial position of the company.

Methodology

The analysis is based upon the social account reporting and disclosure practices of Mangalore Refinery and Petrochemical Ltd (MRPL), Mangalore. The purpose of selecting MRPL is that it is a renowned company and involved in number of social activities. The analysis would be focusing on the information regarding the social activities undertaken by MRPL, Mangalore during the

past 5 years i.e., 2013-14 to 2017-18 drawn. The study undertaken will be based upon the quantitative data that is collected from the annual reports and other documents of the company and further analysed using tables, charts, graphs and statistical techniques like regression and correlation.

Literature Review

Epstein and Eloas (1975) carried out a study of corporations to examine the reporting their social responsibilities in annual reports. The study concluded that the areas of corporate social accounting which appeared more frequently in the annual reports of the selected corporations were: environmental quality, equal employment opportunities, product safety, educational aid, charitable donations, employee benefits, and various community support programmes.

Maheshwari, Sn and Maheshwari Sk (1995) have put forth the business organisation as a social unit which uses society's resources as input to produce the goods and services. The business organisation is therefore compiled to operate within the overall parameters determined by the society. The basic idea behind this arrangement is that all sectors of economy, operating in large scale or small scale, should work for the overall good of the society.

Ness Mitchell R (1992) concludes that corporate social responsibility is a strategic decision whereby an organization undertakes an obligation to society, for example in the form of sponsorship, commitment to local communities, attention to environmental issues and responsible advertising. It has found that the impact of organizational decisions on society in the wider sense has been in evidence in the agricultural and food industries in association with merger and takeover activity, environmental pollution, intensive livestock production, hygiene, health and international marketing practices.

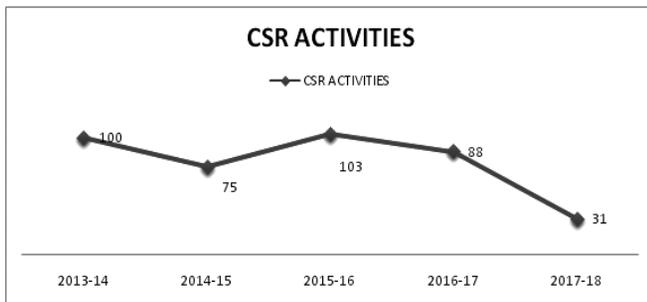
Kamla (2007) carried out a detailed study on social accounting and reporting practices in the Arab countries namely: Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, United Arab Emirates (UAE), Syria, Jordan and Egypt of the Middle East. The study attempted to investigate critically the actuality and potentiality of social accounting and reporting practices in the Middle East from postcolonial view. The study concluded that social accounting manifestations in the Arab Middle East are largely orientated towards repressive/counter radical positions of accounting.

Roy Abhijit .Et Al, (2017) state that corporate environmentalism is an aspect of good corporate citizenship that revolves around the concept of sustainability. In this study they have examined the determinants of corporate environmental responsibility and the economic benefits attached to it.

The study focuses on the disclosure aspect of corporate environmentalism and study how corporate governance practices of companies influence voluntary environmental disclosure quality of firms from polluting as well as non-polluting sectors in Indian context. The study reveals significant impact of corporate governance variables on corporate voluntary environmental disclosure.

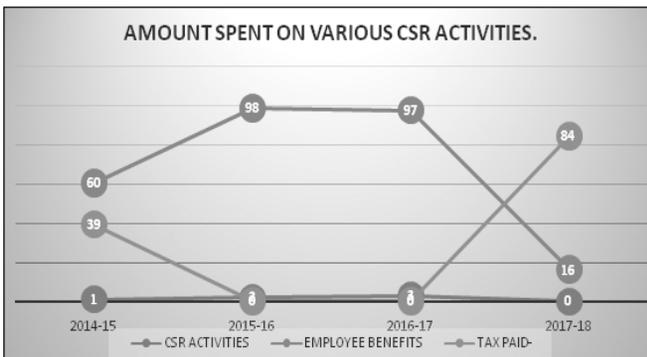
Results and Discussion

Chart No 1: Total Social Expenditure (Rs In Crores) On CSR Activities of MRPL Over past 5 Years



In order to compare the performance of the company with regards to CSR activities over the past year's trend analysis is undertaken taking 2013-14 as the base year. As a result it is found that the amount spent on the CSR activities is highest during the year 2015-16 in spite of the fact that company suffered heavy loss in the same year. The amount expended during the year 2017-18 drops down to 31% and is least of the prior years.

Chart No 2: Amount spent on Various CSR Activities.



It can be interpreted that major part of Social Expenditure was expended for meeting employee benefits and in payment of tax. Only about 1-2 % was spent for CSR

activities. During the year 2014-17, company had no tax liability as the company had negative profit (i.e., it suffered loss). And in the year 2017-18, the portion of CSR of the total Social Expenditure was negligible.

Hypothesis 1: To test the impact of social accounting and reporting on the financial position of the firm and to access if it is positively associated with such variable, correlation analysis is undertaken. Correlation Coefficient is calculated as per Karl Pearsons method. The variables that is tested for is profitability, net worth and earnings per share.

A. *The association of average social accounting with the net profit.*

Ho: Average social accounting is not positively associated with the net profit.

H₁: Average social accounting is positively associated with the net profit.

Table No 1: Profit Before Tax and Total Social Expenditure (Rs in Crores) of MRPL over past 5 Years

YEAR	NET PROFIT (Rs in Crores)	SOCIAL EXPENDITURE (Rs in crores)
2013-14	-476.85	469.28
2014-15	409.70	218.94
2015-16	-2155.89	190.37
2016-17	1173.5	327.44
2017-18	5531.42	2254.79
TOTAL	4481.88	3460.82

The results of the test are as follows:

$$R = 0.91$$

A Correlation Coefficient of 1 denotes that the variables are perfectly positively associated. Whereas Correlation Coefficient of -1 denotes perfectly negative correlation. The correlation co-efficient between Social Expenditure(X) and Profit before tax (Y) is 0.91 showing a positive relation. It concludes that profit increases with the increase in the Social Expenditure and vice versa but the proportionate change in profit is not as same as the proportionate change in Social Expenditure. Hence we 'reject' null hypothesis.

Average social accounting is positively associated with the net profit.

B. The association of average social accounting with the EPS.

Ho: Average social accounting is not positively associated with Earnings Per Share.

H₁: Average social accounting is positively associated with Earnings Per Share.

Table No 2: Earnings Per Share (Rs) and Total Social Expenditure (Rs In Crores) of MRPL over past 5 Years

Year	Eps(rs)	Social Expenditure (Rs in crores)
2013-14	68834	469.28
2014-15	75226	218.94
2015-16	62412	190.37
2016-17	50864	327.44
2017-18	59415	2254.79

The results of the test are as follows:

$$R = 0.84$$

The correlation co-efficient between Social Expenditure(X) and EPS (Y) is 0.84 which signifies positive correlation. It concludes that EPS increase with the increase in the Social Expenditure and vice versa but the proportionate change in EPS is not as same as the proportionate change in Social Expenditure. Hence we 'reject' null hypothesis.

Average social accounting is positively associated with the EPS.

C. The association of average social accounting with the Networth.

Ho: Average social accounting is not positively associated with Net Worth.

H₁: Average social accounting is positively associated with Net Worth.

Table No 3: Networth and Total Social Expenditure (Rs In Crores) of MRPL over past 5 Years

YEAR	NETWORTH (Rs in Crores)	SOCIAL EXPENDITURE (Rs in crores)
2013-14	6883.4	469.28
2014-15	7522.6	218.94
2015-16	6241.2	190.37
2016-17	5086.4	327.44
2017-18	5941.5	2254.79

The results of the test are as follows:

$$R = -0.24$$

The correlation co-efficient between Social Expenditure(X) and Net worth (Y) is -0.24 which signifies negative correlation. Infact, as the value is closer to '0' we can conclude that there exist weak correlation or no correlation between the variables. Hence we 'accept' null hypothesis.

Average social accounting is not positively associated with the Net Worth

HYPOTHESIS 2: To test if the social contribution made by the company MRPL shows an increasing trend over the past five years, least square method is adopted and a trend line is established. Results are predicted by plotting the trend values on the graph.

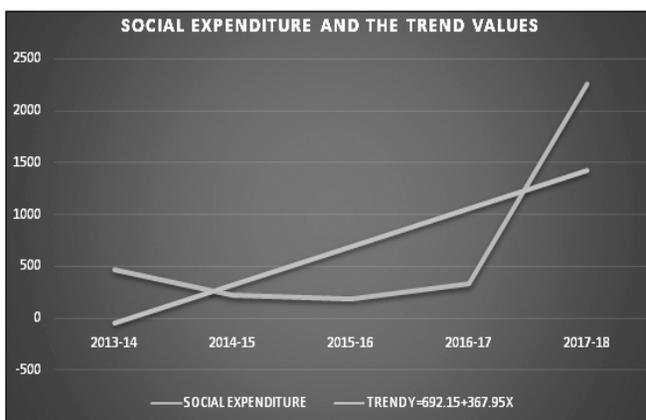
Ho: There is no significant increase in social contribution of MRPL with respect to past 5 years.

H1: There is increase in social contribution of MRPL with respect to past 5 years.

Table No 4.21: Social Cost (Rs In Crores) And The Trend Values

Year	Social Expenditure	Trend Y=692.15+367.95X
2013-14	469.28	-43.75
2014-15	218.94	324.2
2015-16	190.37	692.15
2016-17	327.44	1060.1
2017-18	2254.79	1428.05

Chart No 4.21.1: Social Expenditure and the Trend Values



The above line graph represents an upward trend which depicts the increase in the social expenditure over 5 years. Therefore, we 'reject' null hypothesis and 'accept' alternate hypothesis.

There is increase in social contribution of MRPL with respect to past 5 years

Conclusion

Henry Mintzberg quotes "Corporations are social Institutions. If they don't serve society they have no business existing"

Achieving economic efficiency is a necessary, but not a singular, requirement of business sustainability. Stakeholders demand business organisations are socially and environmentally responsible, and balancing financial performance and corporate sustainability are considered a major challenge in today's economic environment.

It was deduced that companies that pursue social goals vigorously and disclose them usually enjoy the benefit of patronage and good reputation in the environment in which they operate and this will lead to increased market share and positive financial performance thereby adding to increase in the firm's value/ net worth. Therefore it may be concluded that social responsibility accounting was proved successful in fulfilling the functions attached to it.

Suggestion

On the basis results and findings of the study, the following suggestions may be given:

" The data on environmental reporting can be more quantified in order to assist stakeholders in their decision making.

" It is also suggested that MRPL must get the social performance audited by the independent person to improve the reliability on such data provided.

" The company should diversify their social contribution in the areas such as rural development, contribution to the improvement of standard of living of lower section of society.

" More focus is required on environmental protection measure and the disclosure of such data in both qualitative and quantitative terms.

" The government should provide tax rebates for companies that incur social cost as a way of encouraging good corporate reporting.

" Uniform social accounting and reporting practices must be adopted for comparison purpose.

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