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CSR IN SUPPLY CHAINS DISCLOSURE PRACTICES: A REVIEW OF INDIAN COMPANIES

Accounting

Dr. Bharat J.Acharya Associate Professor in Accountancy Shree Sahjanand Vanijyamaha Vidhyalaya, Ahmedabad

ABSTRACT

Disclosure by corporate is the major issue of corporate governance. The study focuses on disclosure regarding Corporate Social Responsibilities by Indian companies after the provision made in Companies Act 2013 in respect of mandatory allocation of profit for CSR practice and its disclosure.

KEYWORDS:

Increasing prominence of CSR globally has caused the organizations to realize the impact business activity has on the stakeholders and the communities within which they operate and to generate policies and procedures to address its negative externalities.[1] Companies across the globe have acknowledged the fact that conducting business responsibly is the most important issue of this era. Even companies belonging to the least developed nations like Bangladesh and Vietnam are realizing the relevance of socially responsible business practices to strengthen their competitiveness in the global market place on a sustained basis.[2] CSR has emerged as a mainstream practice of international business.[3] Business managers in the current scenario are concerned not only with improving the bottom line results of the company but are also concerned with improving their environmental and social performance.[4]

The social responsibilities of the business are not only limited to their social involvement in the community but extends to all functions of the business management from procurement to sale and as such the operational and strategic policies should consider stakeholders' interests and expectation.[5] Responsible procurement is one such function which has caught the fancy of the business world in recent times as a business can't truly be sustainable if its suppliers -- the raw materials producers, component providers, transport and logistics services and other related businesses that constitute the supply chain aren't.[6] Companies are held responsible for practices of their supply chain members.[7] Consequently, companies today are afraid of negative consumer reaction to CSR failures in the supply chain and the associated reputation risks have caused the companies like Starbuks, Walmart, Nike, Apple and others to conduct their supply chain performance responsibly.[8] Very recently the Rana Plaza garment factory collapse in Bangladesh has vindicated the fact that companies' failure to enforce acceptable standards of socially responsible behaviour upon their suppliers can cause significant damage to the company's image. In this globalized world, when companies are sourcing products through global supply chains, they are under growing pressure from NGOs, governments, regulatory bodies, consumers and investors to demonstrate that their products are manufactured under acceptable social and environmental standards.[9]

Organizations around the world have come to realize that their supply chain policies and processes say a lot about the kind of company they are and the values they hold.[10] Besides responsible supply chain performance has important implications for firms' survival and long-term development.[11] Integrating CSR in supply chains is a very challenging task for the supply chain managers for it demands consideration of issues ranging from environment and climate change concerns, human rights resource scarcity, intense competition, cost efficient, reliable and flexible business system to increasing sustainability disclosure demands from customers and investors.[12] Although it can provide companies with an opportunity to manage business risks- social, environmental and economic effectively, to reduce costs and raise productivity and supply chain efficiency and also create a source of potential competitive advantage through improved firm reputation, innovation or differentiation.[13] According to Mark Pearson, Senior Managing Director Accenture Strategy (a global management consulting, technology services and outsourcing company) 'Companies which will prioritize sustainability in the supply chain would differentiate themselves and generate higher margins given the scarcity of resources, rising commodity prices and greater consumer expectation for responsible sourcing and production'.[14]

The relevance of responsible supply chain for emerging economies like India is increasing as globalization and the resultant consumer and investor activism gives compelling reasons for these economies to consider the sustainability issues across the supply chain. Besides the growth in these economies is very fast and has transformed these economies from low cost centres of production to new consumer markets, new investment hubs and new investees.[15]

With mandatory CSR a reality for companies doing business in India, the challenge for the Indian companies is to integrate CSR and Sustainability into their DNA and work with activists, shareholders, consumers and governments to account for their social and environmental footprint.[16] Responsible supply chain management, though a relatively new issue for the India incorporation, it is of much relevance for the survival and growth of Indian companies. A recent report from the World Economic Forum revealed that socially responsible supply chains contribute to the local development, shrink carbon footprints and boost companies' competitiveness. The report found that companies practicing social responsibility in their supply chain could increase their revenues by up to 20%, reduce supply costs by as much as 16% and boost brand value by up to 30 %; and could also shrink their carbon footprints by as much as 22%.[17] Thus CSR in supply chains is an area of growing significance for the companies in India, further more the disclosure of sustainable and responsible practices in the supply chain is one aspect of CSR performance of the companies and this has generated curiosity amongst industry, academia, civil society and other stakeholder groups.

Research on CSR in supply management in Indian context is limited. Though there is some literature available on sustainability and CSR in Indian supply chain, it is either in context of some specific industries or relates with only environmental aspect of the CSR performance of companies. The study is unique in the sense that it attempts to study the CSR performance in supply chain of Indian companies on the basis of disclosures made by the company in their annual reports, sustainability report, supplier code of conduct and company website.

Literature Review

Mentzer, et. al. (2001)[18] defined 'a supply chain as a network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services delivered to the ultimate consumer.' While according to the Global Supply Chain Forum, 'it is the integration of key business processes from end user through original supplier that provide products, services and information that add value for customers and other stakeholders.'[19]

Sustainable supply chain on the other hand is the strategic, transparent integration and achievement of an organization's social, environmental and economic goals in the systematic coordination of key inter-organizational business process for improving the long term economic performance of the individual company and its supply chains (Carter and Rogers, 2008).[20] It is the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the lifecycles of goods and services.[21]

Powel, S. et. al. (2009)[22] found that though companies recognise the need to cover a range of CSR issues in their supply chain, the drivers for supply chain differ from drivers for internal CSR. Companies seeking compliance of CSR in supply chain distinguish between strategic CSR and non strategic CSR and allocate more resources for those activities which have strategic implications for their business.

Bhandarkar, M. et. al. (XXXX)[23] concluded that adoption of CSR practices by supply chain firms in developing countries can result in positive spillovers, redefine industry standards and can compensate for weak enabling environments of the countries where there is absence of rule of law and standards of corporate governance are weak.

Gupta, S. et. al. (2011)[24] conducted a review of existing research in sustainable supply chain management by classifying the literature under four broad categories: strategic considerations; decision at functional interfaces; regulation and government policies and integrative models and decision support tool to provide a nuanced understanding of the issues and trade-offs involved in making decisions related to sustainable supply chain management.

Bhateja, A. et. al. (2011)[25] studied different activities of supply chain processes of the SMEs and large scale industries to find how much eco friendly their supply chains are and classified the supply chain activities as green sourcing & procurement, green manufacturing, green warehousing, green distribution, green packaging and green transportation to develop performance indicators and sub-indicators. The study found cost and efficiency to be an important determinant for the adoption of green supply chains and recycling of raw material and component parts are the top green initiatives. Cost and complexity were perceived as the biggest barriers to implementation of green supply chain. The study also found that most of the Indian manufacturing small and medium enterprises are quite advanced in the implementation of green warehousing and distribution initiatives as it meant added efficiency.

Kumar S et. al. (2012)[26] investigated the practice and implementation of sustainable supply chain management in Indian automotive product manufacturing industry and found significant differences in sustainable supply chain practices of the industry and concluded that the industry will have to work hard to improve its supply chain performance.

Objective of the research

The objective of the research is to study the CSR and Sustainability performance in the supply chain management of the Indian companies based on what is disclosed by the companies in their annual reports, sustainability reports and on their website to understand how companies convey to the stakeholders their compliance of the CSR norms in their performance and reporting.

Methodology

The researcher employed inductive and qualitative approach including the case studies and content analysis of the company reports and website data to explore the disclosure of CSR performance in supply chains and draw inferences on the CSR practices of the Indian companies. The companies included in the study were randomly chosen from the companies listed on the NSE. The researchers chose five companies which are benchmark performers and industry leaders with recognitions in socially responsible business performance. For ethical reasons companies' names are not disclosed.

Data Collection

The data on supply chain performance was collected from the annual reports, sustainability reports, CSR policies, code of business conduct and supplier code of conduct displayed on the company websites. The data collected was for the period 2013-14 but where latest sustainability report was not available report for the previous year was taken to extract the required data. Researchers created a dichotomous index to measure the CSR performance of companies in their supply chains which contained 24 questions and 18 sub issues related to different aspects of supply chain performance.
The total score of the items including the sub items is 42, Company E scores the highest with 31 points, followed by company C with 28 points, company A and B with 27 each and company D with 26 points. From what is disclosed on the companies' websites, which may be different from the actual performance of companies as sometimes companies don't disclose some information and as such is not counted in measuring the performance.

Beginning with the first question which deals with the policy on responsible procurement, though only company A has explicitly disclosed that it has a policy on procurement which emphasizes responsible supplier conduct, for others it has been gauged from the fact that these companies seek compliance from suppliers on the social, legal and ethical issues which shows that company has a policy on responsible procurement. Out of the five companies under study three have ensured that their procurement policy encourages fair competition and companies do not engage in behaviour which would otherwise limit competition or breach applicable laws and regulations. Again three out of five companies emphasize good citizenship behaviour as criteria for supplier selection. All of the five companies have been found to regularly engage with their suppliers in matters pertaining to CSR which highlight the fact that CSR in supply chain has become an area of increasing strategic importance for it can provide companies with a competitive edge over other companies who are not proactive towards responsible supply chain management. Responsible supply chain performance is a new imperative for the companies in this era of increased outsourcing and supplier dependency where it is crucial for them to create a network which is sustainable at the same time effective in meeting customer expectations without sacrificing too much on profits. Only two companies consider supplier feedback in policy formation. Though four out of five companies have a code of conduct for their suppliers, only one company has displayed it on its website which shows that companies are not very transparent with regards to what they expect from their suppliers and what companies' seek form their suppliers on responsible business conduct. Again four of the five companies have made the company code of business ethics applicable to all their suppliers, it is made available on the website by only three companies which draws our attention to the fact that more transparency is needed from companies when it comes to disclosing what companies practice to ensure that companies walk their talk.

With regards to compliance in employment practices by the suppliers all of the five companies have ensured either directly or indirectly that their suppliers are not engaged in labour laws violation and that there is maximum compliance with regards to responsible employee performance especially in the area of organisation health and safety which has been explicitly demanded by all the companies from their suppliers. Again for environmental performance, all the companies seek compliance of environmental laws and management of environmental impact of the activities by the suppliers. Three companies have made significant capacity building efforts by providing training and resources to the suppliers to ensure that suppliers work in the areas of water and energy conservation, waste management- recycling, reuse and reduction of waste, cost and quality control etc. Business ethics and human rights are other areas where all companies screen their suppliers to ensure that there are no violations of human rights and anti-corruption laws as such acts of the suppliers can adversely affect the company's brand and reputation. Community performance, product responsibilities, information disclosure, good governance and certifications like SA8000, ISO 14000, ISO 26000 and EMAS are areas found to be less important for the companies to demand compliance from the suppliers.

Four of the five companies to ensure that suppliers comply in the areas which are crucial to companies' sustainable business performance, conduct suppliers' site inspection and two of the five companies get their suppliers performance audited by third parties to show to their stakeholders the authenticity of their claims. Two of the companies have a zero tolerance approach to non compliance and four companies believe in terminating contracts with non complying suppliers. Two companies have been found to be providing support to their suppliers in remediation with three companies have a grievance redressal mechanism for suppliers and one company awards its suppliers on their efforts to enhance sustainability in performance to encourage such behaviour from all its suppliers. The policy to procure from the local area is common to all the companies with one company practices engagement with small, disabled, women and minority suppliers to promote diversity in procurement practice. Four of the five companies have received either awards or excellent ratings in supplier relationship management, supply chain management, supply chain sustainability etc.

Conclusion

From what is disclosed by the companies on their websites regarding their supply chain performance it is evidenced that CSR performance in supply chain by Indian companies is in a very nascent stage as found by Mitra and Dutta,2013 and disclosure on CSR in supply chain by companies is little which is consistent with the findings by Jose and Saraf, 2013 . Though disclosure made by Company E shows exemplary sustainable supply chain performance, for the company is included in the Global CDP supplier performance Index 2014 and its supply chain performance has been audited by recognized agencies like JAC (Joint Audit Consortium) - a group of eight European telecom companies, Ecovadis, a Paris based organisation and Verego SRS (Social Responsibility Standard) rated the company's supply chain performance as best in class and superior indicating that though CSR in supply chain performance is practiced by few companies but slowly the trend is gaining momentum.

Develop a code of conduct for the suppliers by precisely articulating the expectations envisioned by the company to be affirmed by the suppliers. To ensure that the code of conduct conforms international standards, the Global Compact principles, UN declaration on human rights, and ILO core conventions declarations and recommendations be referenced.Besides that it is also important to make the same available on the company website to make the company practices visible to its stakeholders.

-For effective CSR implementation in the supply chain it is required that companies undertake capacity building efforts by engaging with the suppliers, providing training and skill development and collaborating with the suppliers in developing sustainable products and services.

-Conduct inspections of suppliers' site and get their performance audited through recognized agencies to ensure compliance of the code.

-Provide incentives to the suppliers by awarding and recognizing suppliers with superior sustainable business performance

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