Sustainability Reporting Practices - A Study of Recent Trends in Indian Context

'The earth, the air, the land and the water are not an inheritance from our forefathers but on loan from our children, so we have to handover to them at least as was handed over to us.'- Mahatma Gandhi

Global warming, climate change, social degradation, economic crisis and complexities have raised serious concern over organisations' sustainability. Sustainability reporting is a framework for reporting of business initiatives, for taking professional care of three most vital pillars of organisational growth and stability. These three pillars are planet, people and profit. There are no generally accepted mandatory standards/rules on such reporting at international and even at national level. Organisations are reporting sustainability issues using some voluntary standards. This article unveils recent reporting trends of the organisations on sustainability performances with special reference to India.

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Introduction

Sustainable Development (SD) is being used world-wide as a generic term to signify "overall development". It means adopting business activities and strategies that meet the needs of the enterprise and its stake-holders today while protecting, sustaining and enhancing human and natural resources that will be needed in the future (International Institute for Sustainable Development, 1992). Sustainable development is considered to be a macro concept adopted by the national governments of different countries for the purpose of welfare and development

of the people and surrounding environment. SD tends to corporate or individual organisational sustainability in the micro sense. The principle functioning here is that, if individual companies and organisations ensure 'sustainability' in their operations, they will improve and add values to 'planetary sustainability' to a great extent. Planetary sustainability helps to achieve environmental stability, welfare, development and improve standard of living of the people residing on the planet Earth. Therefore, due to planetary sustainability, overall improvement in three Ps viz., Planet, People and Profit can be achieved as a result of a 'trickle-down effect'. Since 1990s, there is a raising consciousness among people and corporate entities relating to sustainability issues. Increasing numbers of corporate entities have been adopting sustainability accounting and reporting practices because, they have started to understand why they have been charged for the deadly effects of developments and have become real culprits for deleterious effects of such development. Sustainability reporting disseminates information relating to an organisational performance towards triple bottom lines or 3 Ps and is considered to be a catalyst in achieving planetary sustainability.

Sustainability Reports (SR) - An Insight

Sustainability reports may be defined as the means of disclosing and communicating information to an undefined class of users concerning the economic, social and environmental performance of a socialised corporation. These are the formats of disclosing social, economical or environmental commitment of a company. In other words, a sustainability report refers to a single, consolidated disclosure that provides a reasonable and balanced presentation of performance over a fixed time period (GRI 2006).

Since 1990s, after the publication of Brundtland's Report (1987), corporate entities have been using 'sustainability report' as an umbrella term for all the non-financial reports comprising triple bottom line (TBL), sustainability, corporate social responsibility (CSR), stand-alone environmental, health and safety, social community and citizenship reports and combination of these.

Principles of Sustainability Reporting

Reporting principles describe the outcomes a report should achieve and guide decisions throughout the reporting process, such as which topics and indicators to report on and how to report on them. For any type of reporting, there should be some guiding principles, without which the report preparers will be confused regarding the way and scope of reporting. In financial reporting, such principles were issued by the Financial Accounting Standards Board (FASB) of USA in the year 1980. In case of sustainability reporting, GRI issued such principles in its G3 guidelines. Sustainability reporting principles as per G3 may be discussed as follows:

(A) Principles Defining Report Content

- **Materiality:** It means the information in a report should cover topics and indicators that reflect organisation's significant social, environmental and economic impacts or that would substantively influence the assessments and decisions of stakeholders.
- **Stakeholder Inclusiveness:** It indicates that the organisation should identify its stakeholders and to report how it has responded to their expectation and interests.
- **Sustainability Context:** It means that the report should present the organisation's performance in the wider context of sustainability.
- **Completeness:** It refers to the coverage of material topics and indicators that would have significant economic, environmental and social impacts and enabling the stakeholders to assess the performance of the organisation during the reporting period.

(B) Principles for Ensuring Report Quality

- **Balance:** It states that a report should reflect positive and negative aspects of organisation's performance to enable a reasoned assessment of overall performance.
- **Comparability:** The reported information should be presented in such a manner, so that changes in the organisation's performance over the time could properly be assessed.
- **Accuracy:** It indicates that the reported information should be sufficiently detailed and accurate.
- **Timeliness:** It means that information should be available in time so that stakeholders can make informed decision.

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- **Clarity:** Information should be made available to the report readers in such a manner that is easily understandable and accessible.
- **Reliability:** Information and process used in the report preparation should be gathered, recorded, compiled, analysed and disclosed in such a way that could be subject to examination and establishes the quality and materiality of the information.
- **Transparency:** All the above mentioned principles are intended to help achieve transparency. It is the mixture of a value and a goal that underlies all aspects of sustainability reporting.
- **Auditabiliy:** It refers to internal and external examination/assurance of information shown by such report.

General Framework for Sustainability Reports

According to Mel Wilson of PWC, the most effective sustainability reporting contains the following key components:

1) **Scope of the report-** It defines the coverage of the report. Companies generally explicitly identify information that is not covered by the report. For example, a report may include information on company's economic, social and environmental performances.
2) **Company and its operations-** It contains crucial information such as, where the company is located and its area of operations. For instance, a company may report that *"we are operating in four countries with ten facilities"*.
3) **Performance Domains-** Most of the companies generally adopt 'triple bottom line' approach by covering three domains viz. economic, social and environmental. Some also adopt 'carbon footprint' approach.
4) **Issues-** There are many issues in each performance domain. The company is to see which issues are most important from the perspective of the interest of the stakeholders. The company should identify the issues and report how they are related to its performance.
5) **Policies and visions-** Policies describe the stands of the company and reflect more clearly the management's perspectives. They pinpoint the concerns of the management.
6) **Company's processes and initiatives to manage the issues-** The report should state what the company is doing about the issues. These include numerous action oriented examples that the company initiated to address the issues. For e.g. a company may state *"we have initiated numerous emission reduction programmes, as follows……..."*.
7) **Sustainability Performance Indicators (SPI)-** These are various aspects through which performance of a company towards sustainability can be measured, viewed or judged. They may be expressed either in qualitative form or quantitative form or combination of both. Quantitative sustainability indicators are reliable, comparable and authentic. They are also auditable. Qualitative sustainability indicators are not auditable but may be compared by providing grades, arbitrary numbers, etc. Where quantitative indicators could not be used for practical difficulties or for other reasons, qualitative indicators may be the most appropriate. For e.g. a company may report that *"during ....(period)...total emission of green house gases is ……(amount)...CO2 equivalent."*
8) **Future aims and targets-** The report should state the company's strategy about the future. It includes future performance goals and targets. The company should not set out detailed future goals and targets if it is not confident about them. For e.g. a company may state in its report *that "Our goal is to reduce GHG emission by a further....(amount in%).....by .....(period)....by means of ....."*.

Drivers of Sustainability Reporting

Over the last few years, the expanding dimensions of emerging environmental, social issues and increasing awareness about them among different stakeholders, has been putting pressure on the corporate citizens for better social and environmental performance, for putting in place integrated sustainability management approach while pursuing their corporate activities. Corporates are increasingly realising the fact that if they want to survive and stay in market place and maintain their goodwill, they cannot ignore social and environmental concerns. For this good thinking of the organisations, thanks goes to media groups, environmentalists and social workers. Consequently, more and more companies are revising their business strategies to incorporate environment-friendly and socially aware measures. There has been rising expectation among the socially concerned investors, environmental interest groups, customers and regulators that corporates become proactive on environment front, socially responsible and economically fair. As a result, management of issues relating to corporate sustainability are getting top priority in corporate

decisions pertaining to capital investment, process design, performance analysis and evaluation, etc. The following diagram indicates the pressure arising from diverse stakeholders:

Role of Chartered Accountants (CAs) in Sustainability Reporting & Assurance

The Institute of Chartered Accountants of India (ICAI) has been delivering its best efforts towards accounting, assurance and reporting for sustainability issues. Its research wing the Accounting Research Foundation (ARF) was entrusted with the duty of developing standards for sustainability reporting. With a view to popularise such reporting, ICAI joined ***GRI Focal Point of India*** in 2011.

The Companies Act, 1956 provides CAs the exclusive power to audit financial statements. The CAs are experts in the fields of accounting, auditing, taxation, corporate governance, etc. They can prove their supremacy in the budding field of sustainability reporting provided they get proper training and guidance. They have an important role to play in developing the framework for such a report. The roles of CAs with respect to such report are:

- **Development of Sustainable Management System (SMS)**
  CAs can provide various advisory services to develop a system to capture information related to corporate sustainability.
- **Identification of reporting criteria and standards**
  Criteria define the coverage of the report. It may be (1) established/international criteria (such as GRI, EU EMAS, ISO. etc.), (2) industry/organisation specific criteria. CAs help the organisation to select specific criteria that will be relevant for its purpose. They also assist selection of appropriate assurance standards in case an organisation has not specified any standard.
- **Reliable information**
  CAs provided relevant and reliable information for benchmarking.
- **Risk Management**
  They assist to assess and manage business risks emanating from economic, social and environmental issues.
- **Compliance**
  They always monitor and ensure compliance with all applicable rules and regulations.
- **Assurance service**
  Over the recent years, there has been an inexhaustible interest in the auditing of corporate sustainability reports. "Assurance" is increasingly being used for referring to this kind of audits, because they cannot offer the same level of assurance provided by the financial audits (Saha & Gupta, 2011). Indian CAs are known worldwide for their expertise, efficiencies and effectiveness in the area of accounting and auditing. In the near future, they are expected to be the world leaders for guiding the organisations and governments to initiate sustainability reporting and sustainable development related issues. Assurance of sustainability report is going to be budding professional opportunities for CAs in the coming future. According to a recent survey, 52% of sustainability reports of Indian companies are externally assured, out of which share of accountancy firms is 62%. GRI informs that 45% of the sustainability reports published worldwide in 2011 are externally assured. External assurance is highest in Europe i.e. 57% and Asia is second with 17%. CAs assist in evaluating the effectiveness of internal control over such reporting.

Sustainability Reporting Practices - A Study of Global Trends

The worldwide financial crisis had initiated a debate, whether the financial crisis is linked with sustainability related crisis such as climate change and whether the sustainability agenda offers solutions to both financial and sustainability crisis (ICAI, 2012). Over the last five years, it has been observed that the regulatory role has evolved substantially in all parts of the world. A recent joint study done by GRI, UNEP, KPMG Sustainability and the University of Stellenbosch Business School in 30 countries revealed that the voluntary codes, guidelines, national and international standards on

sustainability reporting have been strongly evolving. The research revealed the followings:

- A total of 142 country have standards and/or laws with some form of sustainability related reporting requirement or guidance.
- Approximately 2/3rd of these standards can be classified as mandatory and 1/3rd as voluntary.
- A total of 16 standards with some form of reporting requirement at the global and regional level and
- A total of 14 assurance standards.

Although the Global Reporting Initiative (GRI) had prescribed a framework for reporting sustainability, a consensus is not yet achieved by the global corporate community on the issue of disclosing sustainability information. The debate is going on as to whether these reports should be merged with Annual Report or be made a part of financial statement or be released separately. The accounting world has reached to a consensus to issue such report(s) on a standalone basis (Banerjee, 2006).There are no legal obligations to issue such reports; hence, selection of appropriate formats and methods of disclosure depends on the choice of the organisations. In the present scenario, there is multiplicity of reporting practices. So there is an urgent need to harmonise the reporting framework.

In case of financial accounting, companies are required to follow mandatorily either Financial Accounting Standards (FAS) issued by FASB of USA or International Financial Reporting Standards (IFRS)/ IAS issued by IASB. In the absence of a specific mandatory standard of sustainability reporting at international level, companies bring out such reports in different names and forms.

According to *CSR Trends 3* survey (2009) of PWC 75% of the companies surveyed have CSR information on the website. Many companies do not produce a CSR/sustainability report every year. Only 22% of Canadian companies have a CSR report from any year versus 74% of Euro 350 companies. 50% of the Canadian companies use accounting firms as assurance providers whereas 74% of European, Japanese and Australian companies that seek assurance use accounting firms.

Sustainability reports are gaining popularity worldwide. Increasing number of companies are bringing out such reports and integrating sustainability accounting practices into their mainstream operations. How such reports are becoming popular among the organisations worldwide is shown with the help of following survey results:

(Figures in% of Companies)

	1993	1996	1999	2002	2005	2008	2011
G 250	-	-	36	45	64	83	95
N 100	12	18	24	28	41	53	64

Note: G 250-Top 250 largest companies of Fortune Global 500 and
N 100- Top 100 companies from different countries [16 countries (2005, 2005), 22 countries (2008), 34 countries (2011)].

Country-specific results are also interesting and encouraging. According to a recent publication of GRI, the following countries obtained leading position with respect to number of SRs published:

Table 3- Top 10 Reporting Countries in 2011

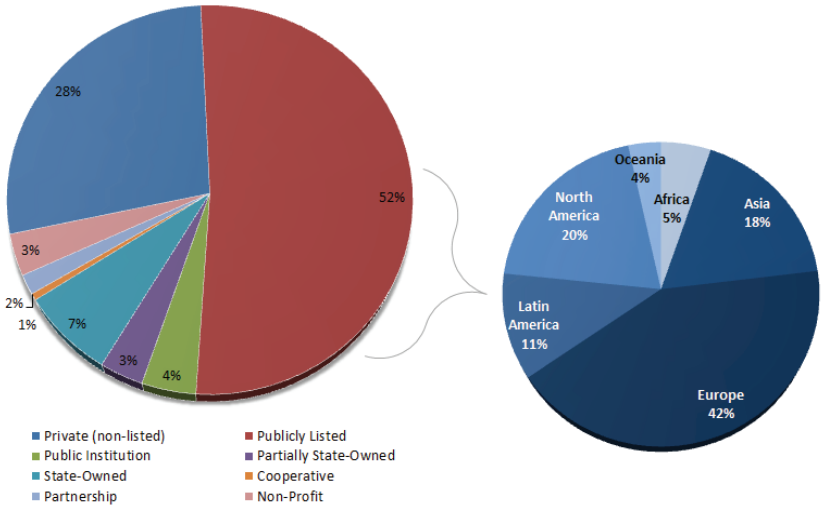
	Year 2010		Year 2011		
Country	**World Total (%)**	**Global 500 Head Quarters (%)**	**Reports (%)**	**Global 500 Head Quarters (%)**	**GDP-IMF Data (in Billions US$)**
Australia	4	2	4	2	1,488.221
Brazil	7	2	6	1	2,492.908
Canada	4	2	3	2	1,736.869
China	-	-	5	12	7,298.147
Germany	4	7	4	7	3,577.031
Netherlands	4	3	4	2	840.433
Spain	9	10	8	2	1,493.513
Sweden	6	1	6	1	538.237
Switzerland	-	-	3	3	636.059
USA	10	28	11	27	15,094.025

The region-specific data on publication of SRs and reports by organisation type are as follows:

Regions	*No. of Reports (%)*	
	2010	**2011**
Europe	45	47
Asia	20	17
Latin America	14	14
North America	14	14
Oceania	4	5
Africa	3	3

Note: Statistics of 2010 as on 02-03-2011 and 2011 as on 19-04-2012.

Report by Organisation Type (GRI, 2011)



Third Annual Sustainability Global Executive Survey (2011) (consisted of more than 4,700 executives, managers leaders worldwide) jointly conducted by MIT Sloan Management Review and Boston Consulting Group revealed that 68% of respondents stated that their organisations increased commitment to sustainability and 74% expected commitment to sustainability to change in the year ahead. 67% executives responded that sustainability strategies are necessary to be competitive.

Sustainability Reporting- Indian Scenario

India is home to 18% of the world's population. With only 2.4% of the total land area of the world, India contributes 7.8% to the known global biodiversity. It has as many as 45,500 plant species and 91,000 animal species representing about 7% and 6.5% of world's flora and fauna respectively. From the biodiversity standpoint, India has 59,353 insect, 2,546 fish, 240 amphibian, 460 reptile, 1,232 bird, 397 mammal species, of which 18.4% are endemic and 10.8% are threatened (CAG, 2010). India's ecosystems are highly degraded and most of the rivers have water quality unfit for direct human use. India was responsible for emitting total 1,602 M.T. and per capita 1.38 Tonne CO2 equivalent green house gases in 2009. Therefore, sustainable development becomes very important for India in today's scenario because it encompasses economic, environmental and social development.

Sustainable development is considered to be a macro concept adopted by the national governments of different countries for the purpose of welfare and development of the people and surrounding environment.

A recent survey conducted by KPMG India in 2011 revealed the followings regarding Indian organisations:

- Of the selected companies, 31% report on sustainability performance, 23% report the business risk of climate change, 13% report business risks in supply chain and 21% disclose green house gases emissions.
- 71% companies use GRI as reporting standards.
- 16% companies have corporate social responsibility strategies in place.
- 52% reports were externally assured and 62% of the reports were assured by accountancy firms.

Bombay Chamber of Commerce's CSR study "Status of CSR- Philanthropy to Business Sustainability" (consisting of 75 companies with turnover ₹1,000 - ₹20,000 or more) revealed the followings:

- Of the companies surveyed, 75% and 35% have CSR policies and CSR Dept. respectively.
- In environmental perspectives, 55% sample companies have targets and KPIs and 44% have ISO 14001 certificate.

Recent Initiatives for Corporate Sustainability in India

It is observed that currently there is no statutorily recognised standard/rule on SR in India. However, steps have been initiated by the government and regulators in creating awareness on SR. According to GRI as on 07-06-2012, number of Indian companies who published sustainability reports are 44 in 2011, 30 in 2010, 22 in 2009 & 2008 and 7 in 2007.

- In 2003, SEBI's Committee on Corporate Governance issued some requirements related to sustainability to be complied with by the companies while listing their securities in stock exchanges.
- In 2007, Reserve Bank of India (RBI) issued notice to all commercial banks to embrace principles of CSR and sustainable Development. Because RBI believes that financial institutions can play a vital role in sensitising their clients to sustainability related issues.
- In 2008, Standard & Poor (S&P), CRISIL launched S&P ESG India Index. 50 Indian companies that meet certain ESG criteria were drawn from the largest 500 companies listed on the National Stock Exchange.
- In 2009, Ministry of Corporate Affairs (MCA) of Government of India in association with Indian Institute of Corporate Affairs (IICA) issued a voluntary guideline of sustainability reporting that may be adopted by any entity reporting on sustainability. In August 2011, MCA revised it and published under the title *"National Voluntary Guidelines on Social, Environmental, & Economic Responsibilities of Business"*.
- In proposed Companies Bill, 2011, several provisions are made for CSR. Company with a specified turnover will be required to establish a committee of CSR just like present audit committee.

Sustainability Initiatives in Public Sector Companies (PSUs)

Comptroller & Auditor General (CAG) of India is entrusted with the duties of formulating accounting and auditing policies and practices in PSUs and government departments. *Report No. 9 of CAG* issued in 2007 revealed that three Central Government companies viz. Hindustan Paper Corporation Ltd. (HPCL), Bharat Petroleum Corporation Ltd. (BPCL) and Steel Authority of India Ltd. (SAIL) issued separate sustainability reports/CSRs. Instead of issuing separate SR/CSR, most of the PSUs have been incorporating sustainability related information in their websites under the head 'ESG'/'CSR initiatives' or integrating them in their Annual Reports. Many of them complied with United Nations' Global Compact (UNGC). Out of 21 member PSUs of UNGC, only 11 reported that they had submitted Communication of Progress (COP). Some other PSUs which had not made formal COP, stated that they were following principles of UNGC in their operations. They include Balmer Lawrie & Company Ltd., Bongaigon Refinery & Petrochemicals Ltd., Bharat Heavy Electricals Ltd. (BHEL), Cement Corporation of India Ltd. (CCI), Chennai Petroleum Corporation Ltd., Dredging Corporation of India Ltd., Engineers India Ltd., Hindustan Paper Corporation Ltd. (HPCL), Indian Oil Corporation Ltd. (IOC), Konkan Railway Corporation Ltd., Mishra Dhatu Nigam Ltd., NTPC Ltd., National Mineral Development Corporation Ltd., Oil & Natural Gas Corporation Ltd. (ONGC), Oil India Ltd. (OIL), Power Finance Corporation Ltd., Rastriya Chemical & Fertilisers Ltd., STC Ltd. The same report of CAG revealed that as on 30th September, 2006, there were 124 companies and business associations in India which pledged commitment to UNGC. Some PSUs are reporting on sustainability aspects in their annual reports prepared in compliance with Section 619A of the Companies Act.

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Dark Aspects of Indian Corporate Sustainability

In India, SMEs are not so responsive towards issuing SR. India is lagging behind in this issue because:

- **Costs-** High cost of establishing measurement systems for sustainability performance acts as an obstacle for Indian SMEs. Companies that are bringing out SRs in India form less than even 1% of

total Indian companies numbering about 12,000 in 2007, though however the percentage will be 3.5% if we consider only 8,000 companies frequently traded in National Stock Exchange, Bombay Stock Exchange (Singh, 2007).

- **Regular checking & assurance**- Most of the companies do not have regular checks and internal assurance protocol in place. Even among the regular issuers of SR, 49% of the Indian companies do not have a formal assurance statement. Amongst the assured SRs, 32% assurance was provided by accountancy firms (KPMG, 2011).
- Most of the reports issued by Indian companies fail to define clear focus areas and identifying key stakeholders.
- The SRs issued during the last few years are **highly packaged**. The reports are either text heavy or heavy design and ignored the main issue of sustainability.
- There are several instances of reporting only on positive aspects and thereby affecting balance of the report. Companies hesitate to disclose information on environmental penalty, pollution etc. and ignore most of the negative aspects under the plea of 'highly confidential information'. Companies are more likely to mention the prizes and accolades they obtained.
- Most of the Indian companies do not have goals and targets for focus areas to show the commitment of them.

India is rapidly progressing towards becoming a developed nation. Sustainable development and corporate sustainability are utmost necessity in Indian perspectives.

Conclusion

India is rapidly progressing towards becoming a developed nation. Sustainable development and corporate sustainability are utmost necessity in Indian perspectives considering environmental degradation, poverty, uneven distribution of wealth, lower per capita income of the maximum population, pollution, social degradation, downward falling standard of living of the people, high inflation and above all, recent financial scams. Inspite of not having any mandatory standard for such reporting and assurance at national level, Indian corporate entities have over performed in many areas relating to sustainability. Although a meagre percentage of Indian companies as compared to India as well as world have published separate sustainability/social responsibility reports, maximum of them have adopted sustainability parameters and norms without issuing such reports. Government, regulators, the Institute of Chartered Accountants of India, all other professional bodies (such as Institute of Cost Accountants of India and Institute of Company Secretaries of India), academic institutions and universities (such as IIMs, IITs), etc. should function together to formulate a comprehensive standard/rule for sustainability reporting and promote sustainability initiatives among both corporate and non-corporate entities operating in Indian territory. In future, all Indian entities are expected to issue separate sustainability reports just like their annual financial reports. ■

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