Sustainability Reporting Practices in India: Challenges and Prospects

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"Every profession bears the responsibility to understand the circumstances that enable its existence."

-Robert Gutman

Sustainability reporting is now a mainstream activity among large, global corporations. Although leading standards such as the Global Reporting Initiative have made significant advancements in setting out the types of information that corporations should publicly disclose, mandatory sustainability reports will not work as an effective policy mechanism unless they are placed in a system that can effectively utilize the information and cause corporations to change their policies and practices.

Currently, only a few companies have adopted such reporting practices compared to other Asian countries like Japan etc. With the growing environmental and social concerns worldwide this decade is going to witness a paradigm shift in the reporting standards which will demand a broad horizon of reporting issues to be addressed by a country like India. Although India lags behind their western counterparts a growing consciousness has been put towards the betterment of the situation so that societal governance and environmental performances are integrated with the traditional economic and financial reporting. With a significant amount of reporting activity been done and as an emerging market in the world the importance of sustainability reporting in India is gaining lots of focus. This paper mainly focuses on the state and overview towards the development of sustainability reporting Practices in India. It also analyze in brief the factors that caused slow pace on this front and try to understand how to increase the depth and scale of the commitment of Indian Companies towards Sustainability Reporting.

Keywords: Sustainability Reporting, societal governance, environmental performances, economic & financial performance.

1. Introduction

For the last two decades sustainability reporting has received considerable attention throughout the management. Sustainability reporting has been in the focus of a large array of theoretical and empirical investigations analyzing the publication outlets from different theory perspectives (e.g. Brown and Deegan 1998; Cho and Patten 2007; Guthrie et al. 2004; KPMG 2011).

The changing global environment is challenging companies to look beyond financial performance to drive business. Business leaders are increasingly realizing the need to integrate environmental and social issues within the business strategy. In a world of changing expectations, companies must account for the way they impact the communities and environments where they operate. Climate change; community health, education and development; and business sustainability are some of the most pressing issues. This raises the importance of accurately and transparently accounting for and reporting these activities.

The reporting scenario in India is still in nascent stage with nearly 125 companies disclosing their sustainability performance. Sectors that lead the reporting initiative in India include construction and building material, metals and mining, oil and gas and chemicals while sectors like transportation, finance, trade and retail and communications and media have few or no reporters. However, the industry has been showing positive signs in embracing this concept and recent policy developments including 'National Voluntary Guidelines on Social, Environmental and Economical Responsibilities of Business' will bolster the reporting efforts in India. Globally economic considerations, innovation, employee motivation and cost savings are some of key business drivers for companies to adopt sustainability; in India it has been observed that strengthening reputation and brand and ethical considerations prompt companies to embrace this concept. This contrast highlights that Indian companies still have not integrated sustainability into mainstream business strategy and operations.

2. Review of Literature

Kelly (1981) undertook a review of the social responsibility disclosure practices of 50 Australian companies with reporting data between 1969 and 1978. He found that disclosures increased throughout the period and the larger companies tended to disclose more environmental, energy and product information than their smaller counterparts.

Wiseman (1982) developed an index to evaluate the content of environmental disclosures. The purpose of index was to objectively measure the information contained in the disclosures and to provide a systematic numerical basis for comparing company's disclosures across different firm characteristics.

Guthrie and Parker (1990) analyzed 147 annual reports of different countries (Australia, United Kingdom, U.S.) and concluded that degree of environmental disclosures by companies varied from country to country, e.g. it was 14 percent in U.K. companies, 53 percent in U.S. companies and 21 percent in Australian companies.

Deegan & Rankin (1997, p. 569) suggest that the users of corporate environmental disclosures extend beyond shareholders as companies "have a wide accountability to various parties within the community, an accountability that extends beyond those with a direct financial interest in the organisation." Indeed, a variety of stakeholder groups are currently demanding information on both social and environmental issues (Daub 2007).

Belal (1999) found that, 90 percent of the selected 30 Bangladeshi companies made some environmental disclosure and 97 percent employee related disclosure in 1996. Most voluntary disclosures were purely descriptive. They were made in notes to the accounts and in the director's report. It was found that mandatory disclosures, such as expenditure on energy, employee costs, employee numbers, etc were provided and there were not much voluntary disclosures in the annual reports.

Bewley and Li [2000] stated that environmental disclosure in corporate annual reports is associated with five determinants: outsiders' knowledge of environmental exposure, pollution propensity, political exposure, auditor quality, and financial performance. In their view, large firms are more likely to be targeted by environmental pressure groups than small firms, a reflection of society's expectation that large firms will be good corporate citizens.

Cheema (2004) concluded that the bigger companies disclosed more environmental information in their annual reports and also the system of maintenance of accounts for environmental expenses was better in bigger companies. He also found that higher the foreign influence involved in a company, better was the level of environmental disclosure in annual reports. Companies dealing with foreign customers were more environmental conscious and were providing better environmental disclosures.

The survey by KPMG & Sustainability (2008) indicates that readers use the reports to improve their understanding of the reporter and its approach to sustainability, for benchmarking, to inform education or research, and as the basis for further action, including which products to buy, which companies to do business with or work for, how to direct public action, or to make investment/divestment decisions.

Brown et al. (2009) suggest that mainstream institutional investors, NGOs, and the media have not been showing very much interest in sustainability reports. The reasons cited include uneven data quality and trustworthiness of reports, selective reporting by companies, as well as excessive and unfocused information. However, this view has been challenged recently. Sullivan (2011) suggests that the investment community is now widely seen as one of the key audiences of corporate responsibility reporting.

3. Statement of Problem

As sustainable development has become more important nowadays, investors and consumers are demanding more and more information on a company's environmental and social performance. Development of sustainability reporting is comparatively slow in India when comparing with other countries. Currently, accounting for the financial aspects of an organization's performance is a statutory requirement but accounting for sustainability is a voluntary activity in India. It is believed a good sustainability report is essential to enhance transparency and accountability of reports.

4. Objectives

1. Understand the current status of Corporate Governance and Sustainability Reporting initiatives in India.
2. Assess the needs, challenges and opportunities to adopt good governance practices and uptake of sustainability reporting.

5. Mandatory v/s Voluntary Environmental Disclosures

Till now there are only a few large companies that are making social and environmental reports. Now there is a need of such non-financial reports at large scale and even medium or small scale organization must also prepare such reports. This cannot simply be the result of regulatory pressure, but different forms of regulation – including self-regulation – can play an important role in advancing the comparability, credibility and relevance of information disclosed. Stocken [2000] argues that in absence of a mechanism to enforce verifiability, voluntary disclosures are not credible and therefore are ignored by the market. However, accounting reports that verify information in managers' voluntary disclosures make these disclosures credible and thus informative in equilibrium. Lundholm [2003] argues that even though the mandatory report is backward-looking and therefore has no informational content, it improves the credibility of voluntary disclosure. Ball [2006] argues that when managers believe accounting numbers are more likely to be reported accurately and independently (mandatory reporting), they are less likely to disclose misleading information about their expectations (voluntary disclosure). Mandatory reporting presents several advantages such as the creation of standardized and comparable measures that enable benchmarking and best practices (Hess 2008). Voluntary reports are also found to be incomplete and are not related to the firms' actual environmental performance (Wiseman, 1982).

	Reasons for Reporting	Reasons against Reporting
Mandatory approaches to reporting	• Changing the corporate culture – leaders will continue to innovate above minimum requirements • Incompleteness of voluntary reports • Comparability • Non-disclosure of negative performance • Legal certainty • Market failures – theory of regulation • Reduction of non-diversifiable market risk free rider problem • Cost savings • Standardization • Equal treatment of investors	• Knowledge gap between regulators and industry • One size does not fit all • Inflexibility in the face of change and complexity • Lack of incentive for innovation • Constraints on efficiency and competitiveness
Voluntary approaches to reporting	• Flexibility • Proximity • Compliance • Collective interest of industry	• Conflicts of interest • Inadequate sanctions • Under-enforcement • Global competition • Insufficient resources

6. Benefits of Sustainability Reporting

Sustainability reporting can have a wide range of business benefits.

- Drives innovation and learning
  – Highlights inefficiencies and risk, and helps identify opportunities for supply chain, management, and business improvement.
- Societal competition / reputational dividends
  – As sustainability reporting gains a higher profile with employees, investors, and stakeholders, quality reporting will be considered a factor in whether to engage with a company or market.
  – It can increase employee retention, attract investors, and improve relationships with stakeholders.
  – As and when sustainability reporting becomes mandatory, it will be accompanied by fines and non-financial consequences for non-compliance, such as barring an IPO at a specific stock market.
- Business opportunities and improvement
  – Improved employee attraction and retention
  – Attraction of investors
  – Stronger communication with governments, regulators, NGOs and local communities
- Raises corporate transparency
  – Improves trust from employees, stakeholders, and investors
  – Highlights management quality,
  – Increases brand value
- Balanced assessment by stakeholders
  – Gives a strong indication of how well a company is being managed
- Holistic assessment of emerging risks and opportunities
  – Increases business resilience
  – Highlights emerging markets and opportunities,
  – Mitigates social and environmental (non-financial) risk
  – Reassures investors that company is managing non-financial risk
- Promotes stakeholder engagement and communications
- Aligned with objectives of annual reporting of financial information.

7. Barriers to Sustainability Reporting

However, there remain certain barriers to sustainability reporting.

- Unclear / rapidly evolving reporting standards and frameworks
  – Breadth of topics under sustainability can be overwhelming
- Resources: cost, time, expertise
- New processes may feel uncomfortable, especially stakeholder engagement
- Lack of management support or understanding
  – Fear of risking credibility and reputation, risking misinterpretation
  – Senior-level ownership is important
  – Training and education of management and employees responsible for report
- Mandating sustainability reporting places companies and stock exchanges at a competitive disadvantage
  – Companies risk credibility or misinterpretation
  – Stock exchanges risk discouraging new IPOs

- Perception that stakeholders and investors do not read sustainability reports produced
- No clear financial return on investment

8. State of Sustainability Reporting in India

India, even with its moderate growth over the last 2 years is one of the fastest growing economies in the world. It stands 10th in the world by GDP third in terms of PPP among the world. Even when the US, EU, Japan and other large G8+5 countries have seen stagnant or low growth rates, only China and India have managed a steady growth of 7.8% & 5.4% respectively.

With growth comes pressure on resources, social inclusion and environmental stability. Both India and China are continually facing issues such as inequality, poverty, environmental pollution, corruption, public health and the like. With the line between public responsibility and private initiative blurring, the popular opinion is putting pressure on private players to be responsible in their activities, go beyond financial performance and contribute positively to the social, economic and environmental well-being of the nation and society at large.

In short, companies are under pressure to become more Sustainable. While most of the companies have been able to heed this call, a lot of activity around sustainable development and sustainability reporting is just talk followed by very less action.

With the new and revised Companies Act 2013, India has become one of the first countries to prescribe expenditure for (qualifying) companies towards CSR. It further requires that companies adopt a CSR policy, constitute a board-level CSR committee for oversight and implementation, and disclose their activities.

The pressure on organizations to respond to and communicate their response to sustainability concerns is increasing through legislative levers and regulatory mechanisms. With SEBI’s mandate of August 2012 on Business Responsibility Reporting (BRR) for the largest listed entities in India, there is a definite shift from voluntary to mandatory sustainability reporting. One hundred and one companies were mandated to bring out a BRR in 2013, with about half of them reporting such information for the first time publicly.

Sustainability Reporting is not a mandatory requirement in India. Except for some high performing, visible companies, a lot of organizations in India haven’t started using the GRI sustainability reporting framework effectively.

Cement is the most compliant among this specific sample with 100% compliance with Banking & Financial services and Healthcare & Pharmaceuticals sector being the least compliant.

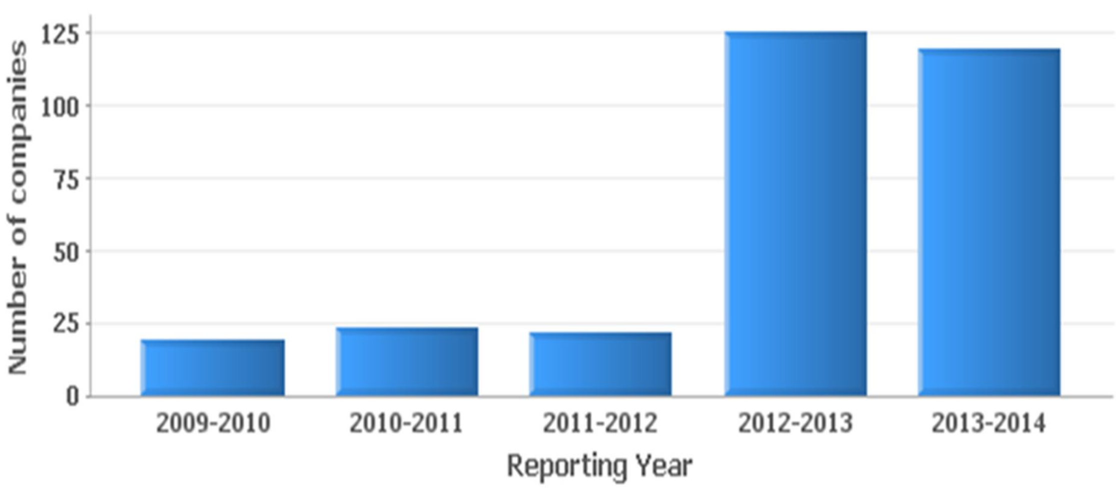
The IT sector, with huge intellectual capital and most of its business coming from US, Europe and APAC markets, has been a very diligent reporter and companies like Infosys, Wipro and Cognizant have been praised for the quality & neutrality of their reporting.

Banking and Financial Services companies, in spite of their vast presence the BSE/NSE 100, their compliance is close to nil. Except of Shriram Transport Finance Ltd, which released an undeclared report in 2008 (& none thereafter), no other bank or large finance corporation makes a statement of their impacts and responses on Sustainability.

Same is the case with Healthcare & Pharma sector. With such an important role to play in the society and a large impact on the environment, the expectation is on this sector to be more proactive in reporting their Sustainability impacts. More compliance and action is also needed in the Construction, Telecom, Mining, Energy & Power and Infrastructure sectors.

So given that a lot of top companies in these sectors are yet to release their first Sustainability reports, the only way to go from here is upwards. Already, companies are drawing up their Sustainability strategies from their boardrooms, collating their compliance levels and increasingly getting open about their impacts on Social, Economic and Environmental fronts.

9. Number of Listed Companies with Sustainability Reports



Source *Sustainability Outlook*

Sustainability Reports 2013-14 (In Percentage)

Reporting Framework

BRR	82.1
GRI	0.7
GRI – Referenced	0.7
GRI G3.1	9.9
GRI G3.1 with BRR	0.7
GRI G4	4.5
Own/ Non – standard	0.7
SR Unknown	0.7
Total	100.0

Source *Sustainability Outlook*

10. Sustainability Reporting - Challenges

India has seen unprecedented economic growth in recent years resulting in growing demand for natural resources and has affected the environment as well. Sustainability Improvement, speaks about the challenges of reporting within an organization as it demands a lot of organizational effort to gather and monitor data. This can make it a challenging, time-consuming and costly exercise.

Another challenge is the need for independent verification and assurance of reports to provide comfort to stakeholders, management and the board in mitigating the risks posed by sustainability issues. Only a fraction of reports are independently assured, however, just like reporting itself, the trend is positive and gives rise to optimism.

According to British Telecommunications findings, although Indian companies are proactive towards sustainable issues, there are still many issues – inclusive employment, education, employment creation, health, corporate/government collaboration, land and displacement, natural resource management, climate change, corporate governance, solid waste and water – to be addressed by them. In fact, Indian companies are failing to come out with innovative approaches for addressing sustainable issues.

Many organizations do not prioritize sustainability reporting, and some parties are opposed to regulation. The requirement for companies to disclose sustainability information is seen by some business associations as an increase in red tape, administrative burdens, and increased direct costs. Yet many companies will find the expenditure on their sustainability report to be far less significant than their expenditure on financial reporting, advertising or PR. The costs of issuing a sustainability report vary. Many elements of the reporting process can contribute to its cost, including:

- Time for senior management and other staff to discuss report contents
- Developing and implementing data gathering systems
- Time for gathering and inputting data
- Implementing new processes, including staff training on data collection
- Time for checking information
- Preparing the report itself, involving internal resources (time, capacity building, etc.), and potentially external resources (consultancy, writing/editing, layout, printing, etc.)
- External verification or auditing, if applicable

Demand for more reliable data on specific issues – such as GHG emissions – will continue to increase. Yet the issue of whether policy makers will continue to take a longer term view is further complicated by the tension between the lack of trust in governments' regulatory force on the one hand, and the increasing public demand for transparency and regulation on the other. It remains to be seen which force will win.

11. Key Conclusions

1. There has been little momentum observed towards reporting in Singapore, with neither companies nor stakeholders pushing for reporting as a practice or goal.
2. The benefits of sustainability reporting are not clearly understood within companies, either by leadership or employees.
3. There is a skills gap between what is required to create a comprehensive sustainability report and what companies have available and are willing to commit to the task.
4. While frameworks can be useful for stakeholders, there is confusion over the number and variety of frameworks.

12. Recommendations

1. Educate companies and stakeholders on the relevance of sustainability issues. Arguably, this responsibility lies with the organizations and institutions which want to see increased sustainability disclosure, such as responsible investors, NGOs, special interest groups, consumers, governments, and stock exchanges.

2. Build awareness that the process of reporting is integral to the long term strategic goals of companies.
3. Companies and regulators should continue to raise awareness of sustainability and the benefits of sustainability reporting as mandating sustainability reporting may not be conducive to the production of comprehensive and useful reports.

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