Sustainability Reporting Practices in India: Key Issues and Challenges

[a] **Giridhari Sahoo,** [b] **Rabindra Kumar Swain**
[a]Ph.D Scholar, P.G department of Commerce, Utkal University, Vani Vihar, Bhubaneswar, Odisha, India
[b]Assistant Professor, P.G Department of Commerce, Utkal University, Vani Vihar, Bhubaneswar, Odisha, India.

Abstract

The attempt to understand and change the global situation has led to the growth of an important movement within society; people are requesting more information as they attempt to understand the causes of this situation at both local and global levels and are beginning to discuss solution. The concept of integrated reporting, which has been evolving over the last year, underlines the importance of demonstrating independence between strategy, governance, operation and financial and non-financial performance. India's business and investment communities are beginning to recognize the benefits of sustainability reporting and organizational transparency. Involvement and ownership by top management, the management structure that formulates strategies and runs the operation of the company is a critical part of the sustainability process, given their ability to effect changes and to develop a long term vision and goals for the organization.

Amid this background, the present paper endeavors to analyze recent trends in Sustainability Reporting Practices in India and to study the conceptual framework & challenges faced by Indian corporate in sustainability reporting practice.

KEYWORDS: Sustainability Reporting Practice, Stakeholder, Global Reporting Initiative (GRI), Integrated Reporting, Social Performance.

INTRODUCTION:

Sustainability reporting is a tool to increase transparency and accountability in the issues that traditional financial reporting is not dealing with. These include the linkages between environmental, social and economic issues as well as long-term perspective. Reporting on sustainability matters has increased in the private sector since the 1990s. Recently, some public sector organizations have also started disclosing their sustainability performance.

As voluntary sustainability reporting has become an increasingly common practice among large corporations, the question arises as to whether or not such reporting should remain strictly voluntary, or should be mandated by regulators or stock exchanges. A number of governments have already made broad based sustainability reporting essentially mandatory. Sustainability reporting enables organizations of all shapes and sizes, including companies and public agencies, to measure, manage and publicly disclose their economic, environmental and social performance.

The content of sustainability reports focus more on complying to the reporting guidelines requirements rather than elaborating on materiality, stakeholder engagement and future plans and targets. Although, problem regarding reporting practices is widely accepted; it is equally accepted that the impact of corporate activity upon society and its citizens as well as all stakeholders including the environment is considerable and has an impact not just upon the present but also upon the future. Sustainability disclosure tracks, and allows for improvement on those issues most tied to a corporation's environmental and social impact and company's financial performance.

RESEARCH METHODOLOGY AND OBJECTIVES OF THE STUDY:

The study is based on secondary data which is collected from the published reports of different corporate, GRI reports, newspapers, articles, magazines, journals, websites, etc. and planned with the following objectives:

- To study the conceptual framework of sustainability reporting practices.
- To study the challenges faced by Indian corporate in sustainability reporting practice.
- To critically analyse recent trends in sustainability reporting practices in India.

LITERATURE REVIEW:

- **Rashmi and Rao (2014)** in their article on "*Sustainability Reporting in Indian Foundries"* suggest that sustainability reporting is mandatory for top 100 BSE/NSE listed companies but voluntary compliance surely make the company distinct from others.
- **Sahoo G (2013)** in his article on *"Triple Bottom Line Reporting Concept: A Key to Sustainability Reporting Practice"* suggest that There must be critical need based development for a new conceptual basis for generating accounting information in order to support multi-stakeholders interests & relationship and explains the logical development of an integrated sustainability reporting system founded upon the Triple Bottom Line (TBL) of an organization's economic, environmental and social performance.
- **Gupta and Saha (2012)** undertook a study on **"***Sustainability Reporting Practices - A Study of Recent Trends in Indian Context"* and suggested that 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 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.
- **Mitra (2011)** undertook a study on **"***Sustainability Reporting Practices in India: It's Problem & Prospects***"** and try to focus on the state of Reporting Practices in India, analyse in brief the factors responsible for reporting & understand how to increase the depth & commitment of Indian Companies towards Sustainability Reporting in the years to come.
- **Baxi and Ray (2009)** undertook a study on **"***Corporate Social & Environmental Disclosures & Reporting***"** and found that, the current business practices in Indian companies do not reveal substantive approach towards environmental and social disclosures and reporting. The major focus of reporting is based on qualitative

description of their functions and roles but no emphasis has been given on a defined set of quantitative parameters, which may lead to understanding of company's approach and performance from a social cost benefit perspective.

- **Sharma (2008)** in his research paper on "*Sustainability Reporting Trends in India*" and found that, reporting information should be
  - Regulatory environment and fact-based information.
  - Information of interest to investors such as materiality of issues in financial terms, vision and strategy statements, goals and targets, etc.
  - Explanation on identification and prioritization of material issues and reader friendly report design.

WHAT IS SUSTAINABILITY REPORTING?

"A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities."

"A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy."

Global Reporting Initiative (GRI)

MAJOR PROVIDERS OF SUSTAINABILITY REPORTING GUIDANCE IN GLOBAL CONTEXT:

- The Global Reporting Initiative (The GRI Sustainability Reporting Framework and Guidelines)
- The Organization for Economic Co-operation and Development (OECD Guidelines for Multinational Enterprises)
- The United Nations Global Compact (the Communication on Progress)
- The International Organization for Standardization (ISO 26000, International Standard for social responsibility)

VOLUNTARY SUSTAINABILITY REPORTING:

The major players in industries with direct impacts on the environment, such as the chemical, electric utility, oil and gas and mining industries have aggressively taken up sustainability reporting. According to the corporate register.com, in the first nine months of 2008 alone, some 80 major chemical companies worldwide issued sustainability reports, while 80 reports were issued by mining companies, 200 by oil and gas companies, and the electricity sector accounted for roughly another 230 reports. But up to 2015, more than 8500 companies are issuing sustainability reports worldwide.

This strong growth in voluntary sustainability reporting suggests that both corporations and their stakeholders find value in the publication of this data. However, we believe that without mandatory reporting, the crucial task of transforming sustainability reporting into actual improvements in sustainability performance will remain an especially difficult task.

MANDATORY SUSTAINABILITY REPORTING:

Mandatory reporting has the potential to address the challenges, and can bring with it a number of additional benefits. A mandatory regime will, for instance:

- Create a level playing field for corporations disclosing crucial information related to sustainability performance.
- Allow investors and others to make "apples-to-apples" comparisons of the relative sustainability performance of companies within a specific sector.
- Enable the full range of stakeholders to hold robust debates on the effects of corporate activity.
- Help internalize costs from corporate activity that the current disclosure regimes allow to be externalized on to society.

Mandatory reporting regimes create better disclosure, which, when incorporating key sustainability performance indicators, can lead to better performance in those areas most crucial to stockowners, other stakeholders, and society.

DRIVERS OF SUSTAINABILITY REPORTING:

A business cannot succeed in isolation. There are various stakeholders involved in the success of business. Sustainability report although a form of environmental reporting can be effectively designed only with the support of various stakeholders. Following diagram depicts various stakeholders who drive the company in the preparation of sustainability report.

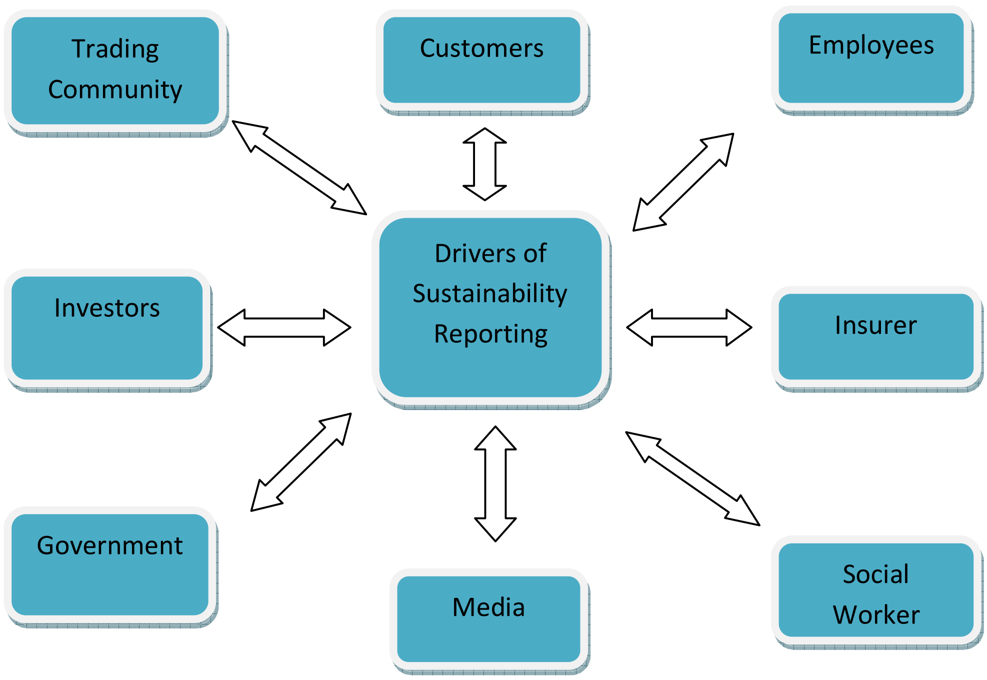


Fig-1

GLOBAL REPORTING INITIATIVE (GRI) FIVE PHASES PROCESS:

Following are the five phases in the development of sustainability reports:

Phase 1: Prepare

- Defining the report scope, boundary and time period which will be company specific.
- Getting started: linking business goals and sustainability impacts.

Phase 2: Connect

- Understanding the importance of stakeholder engagement in the reporting process.
- Stakeholder identification and prioritization.
- Effective stakeholder communication.

Phase 3: Define

- Identifying relevant sustainability issues for action and reporting.
- Evaluating existing monitoring system.
- Setting goals and performance targets.

Phase 4: Monitor

- Adhering to GRI indicators and protocols.
- Checking processes and monitoring activities.
- Ensuring quality of information.

Phase 5: Communicate

- Maximize internal and external report value.
- Incorporating sustainability reporting into traditional annual report.
- Designing report for clarity and readability.

TYPES OF INDIAN ENVIRONMENTAL REPORTS:

Following are the commonly published form of social and environmental reports:

- Sustainability Report: Based on GRI guidelines.
- Business Responsibility Report: Based on SEBI guidelines- Clause 55 of listing agreements.
- Corporate Social responsibility Report: Voluntary disclosure activity with no specific guideline. But according to Companies Act, 2013, in India it is mandatory to specific companies.

DIFFERENCE BETWEEN SUSTAINABILITY REPORTING AND FINANCIAL REPORTING:

Parameter	Emphasis in Financial Reporting	Emphasis in Sustainability Reporting
Time- Scale	The reported year	Future orientation
Focus	Issues that organization directly control	Wider sustainability impact

Economic View	Material	Intangible
Data	Financial	Non-financial
Materiality	Financial significance	Any information that is significant to the reader
Users	Shareholders and investors	Stakeholders

BENEFITS OF SUSTAINABILITY REPORTING: An effective sustainability reporting cycle can benefited to all reporting organizations.

- **Internal benefits for companies and organizations**:
  - Increased understanding of risks and opportunities.
  - Emphasizing the link between financial and non-financial performance.
  - Influencing long term management strategy and policy, and business plans.
  - Streamlining processes, reducing costs and improving efficiency.
  - Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives.
  - Avoiding being implicated in publicized environmental, social and governance failures.
  - Comparing performance internally, and between organizations and sectors.

- **External benefits of sustainability reporting**:
  - Mitigating or reversing negative environmental, social and governance impacts.
  - Improving reputation and brand loyalty.
  - Enabling external stakeholders to understand the organization's true value, and tangible and intangible assets.
  - Demonstrating how the organization influences, and is influenced by, expectations about sustainable development.

DISTINCTIVE ELEMENTS OF GRI'S FRAMEWORK:

- **Multi-stakeholder input**: GRI's approach is based on multi-stakeholder engagement; this is considered the best way to produce universally applicable reporting guidance that meets the needs of all report makers and users. All elements of the Reporting Framework are created and improved using a consensus-seeking approach, and considering the widest possible range of stakeholder interests. Stakeholder input to the framework comes from business, civil society, labour, accounting, investors, academics, governments and sustainability reporting practitioners.

- **A record of use and endorsement**: Every year, an increasing number of reporting organizations adopt GRI's Guidelines. From 2006 to 2011, the yearly increase in uptake ranged from 22 to 58 percent. New audiences for sustainability information, like investors and regulators, are now calling for more and better performance data. Annual growth in the number of reporters is expected to continue, as GRI works for more reporters and better reporting.

- **Governmental references and activities**: GRI was referenced in the Plan of implementation of the UN World Summit on Sustainable Development in 2002. Use of GRI's framework was endorsed for all participating governments. Several governments consider GRI's framework to be an important part of their sustainable development policy, including Norway, the Netherlands, Sweden and Germany.

- **Independence**: GRI's governance structure helps to maintain its independence; geographically diverse stakeholder input increases the legitimacy of the Reporting framework. GRI's funding approach also ensures independence. GRI is a *stitching* – in Dutch, a non-profit foundation – with a business model that aims for a degree of self-sufficiency. Funding is secured from diverse sources; governments, companies, foundations, partner organizations and supporters.

- **Shared development costs**: The expense of developing GRI's reporting guidance is shared among many users and contributors. For companies and organizations, this negates the cost of developing in-house or sector-based reporting frameworks.

- **Bridge building**: GRI's basis in multi-stakeholder engagement contributes to its ability to build bridges between different actors and sectors like business, the public sector, labour unions and civil society at a large.

CHALLENGES FACED BY INDIAN CORPORATE FOR SUSTAINABILITY REPORTING PRACTICE:

- **Environmental Sustainability**: India has seen unprecedented economic growth in recent years resulting in growing demand for natural resources and has affected the environment as well. It has become impossible to have business success and economic growth without environmental sustainability. This is a major challenge for fast-growing emerging economies such as India. At the Rio+20 conference too, this concept was given high priority.
- **Data Monitoring:** 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.
- **Independent Verification of Reports:** It 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.
- **Global Competition:** British Telecommunications revealed that the overall performance of Indian Corporate Reporting is not satisfactory when compared

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

RECENT TRENDS IN SUSTAINABILITY REPORTING PRACTICES IN INDIA:

In India, the Ministry of Corporate Affairs released Voluntary Guidelines on Social, Environmental and Economic responsibilities of Business in July 2011, after considerable stakeholder consultation. These are compatible with globally accepted guidelines on sustainability reporting for the corporate sector.

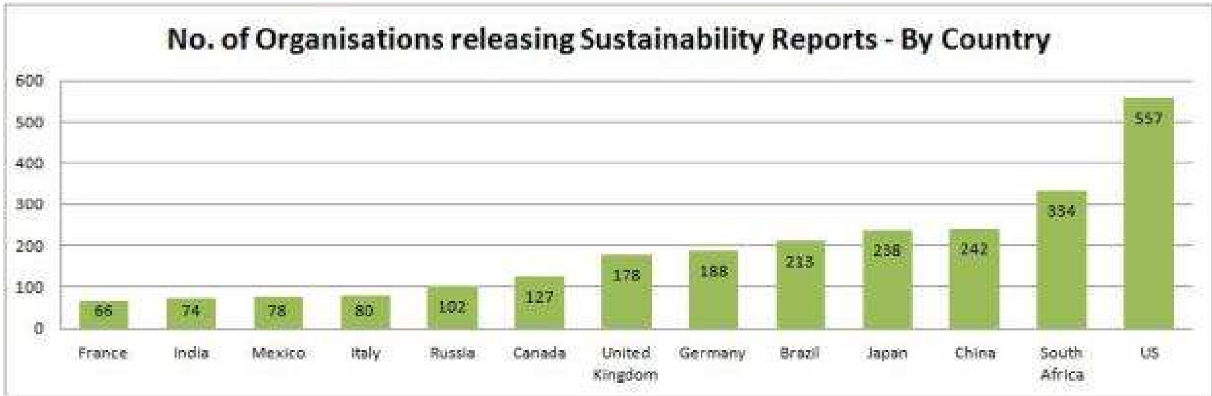
In 2011, the Government of India issued Sustainable Development Guidelines for Central Public Sector Enterprises (CPSE) for implementation from 2012. These stipulate how much, and how, CPSE should report on Corporate Social Responsibility. These Guidelines cover projects, activities, expenditure, documentation and monitoring of sustainable development initiatives. In the event that the CPSE is unable to adhere to the Guidelines, it has to inform its stakeholders about the aspects of the Guidelines it was unable to comply with, either partially or fully.

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.

According to GRI, only 74 Indian companies have filed sustainability reports while their international counterparts are ahead (557 companies from the US and 242 companies from China have filed such reports). Even among the BRIC countries, India has the lowest number of companies filing sustainability reports. Indian companies that have prepared sustainability reports on a voluntary basis include Infosys, IOCL,BPCL, HPCL, Tata Steel, ITC, Reliance Industries, ACC, Dr. Reddy’s, and Sterlite.

Considering lack of awareness in India, the Government and regulators have taken a lot of measures to enable sustainable reporting. The Companies Act, 2013 requires that every company with net worth of Rs.500 crore, turnover of Rs. 1,000 crore or net profit of Rs. 5 crore should include the board’s report on corporate social responsibility (CSR) policy. Furthermore, such companies have to spend 2 per cent of their average net profit of the past three years on CSR activities. The Securities and Exchange Board of India issued a circular in August 2012, which requires top 100 listed entities to publish business responsibility reports as part of their annual reports on a compulsory basis.

The time has come for Indian companies to take initiatives for sustainable development and rather than ending with the publishing of a report, it should provide substantial benefits to the environment and society.



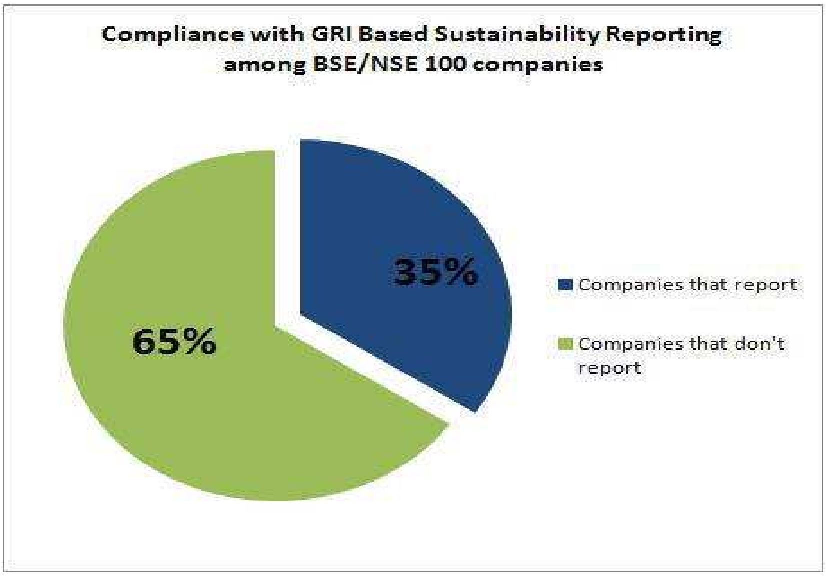
Source: http://efficientcarbon.com/blog/state-of-sustainability-reporting-in-india

Fig-2

INTERPRETATION: From the above graph it clearly indicates that,

- US is in highest position and France is in lowest position regarding sustainability reporting practice, where as India is in second lowest position in global context.
- Hence there must be need of awareness among Indian Corporate and regulation regarding mandatory disclosure of sustainability reporting practice.

GRI BASED SUSTAINABILITY REPORTING AMONG BSE/NSE TOP 100 LISTED COMPANIES:



Source: http://efficientcarbon.com/blog/state-of-sustainability-reporting-in-india

Fig-3

INTERPRETATION:

From the survey made by efficient carbon.com, it was found that:

- Out of 100 Companies listed with BSE/NSE, 35 Companies voluntarily report on the basis of GRI guidelines and 65 companies do not report on GRI basis.
- Furthermore, the companies which are following GRI guideline are performing better in all aspects than others.

THE LIST OF INDIAN COMPANIES WITH GRI BASED SUSTAINABILITY REPORTS UP TO 2012:

Sr. No	Organization	Sector	Starting Year
1	Mumbai International Airport Private Limited	Airport operator	2012
2	Ambuja Cements	Construction	2011
3	JSW Steel	Metals Products	2011
4	Jubilant Industries Limited	Chemicals	2011
5	Transport Corporation of India (TCI)	Logistics	2011
6	UltraTech Cement	Construction Materials	2011
7	HCC	Construction	2010
8	Jain Irrigation Systems	Agriculture	2010
9	JSW	Conglomerates	2010
10	KOEL	Energy	2010
11	Maruti-Suzuki	Automotive	2010
12	Multi Commodity Exchange of India (MCX)	Financial Services	2010
13	Oil and Natural Gas Corporation (ONGC)	Energy	2010
14	Small Industries Development Bank of India (SIDBI)	Financial Services	2010
15	Sree Santhosh Garments (SSG)	Textiles and Apparel	2010
16	Grasim Industries	Construction Materials	2009
17	Moser Baer India	Other	2009
18	V. S. Dempo & Co.	Mining	2009
19	Wipro Ltd	Computers	2009
20	ABN AMRO INDIA	Financial Services	2008
21	BPCL	Energy	2008
22	Chemplast Sanmar	Chemicals	2008

23	Dr. Reddy's Laboratories India	Healthcare Products	2008
24	Indian Oil	Energy Utilities	2008
25	Infosys Technologies India	Computers	2008
26	Larsen & Toubro	Conglomerates	2008
27	Mahindra	Conglomerates	2008
28	MSPL	Mining	2008
29	SRF	Conglomerates	2008
30	Sterlite Industries	Mining	2008
31	Tata Motors	Automotive	2008
32	Tata Tea	Food and Beverage Products	2008
33	Varroc Engineering	Equipment	2008
34	Tata Consultancy Services (TCS)	Computers	2007
35	Sesa Goa	Mining	2006
36	Shree Cement	Construction Materials	2005
37	ITC	Conglomerates	2004
38	Jubilant Life Sciences Ltd	Chemicals	2004
39	Reliance Industries Limited	Conglomerates	2004
40	Tata International	Conglomerates	2004
41	Ford India	Automotive	2002
42	Paharpur Business Centre	Commercial Services	2002
43	Tata Steel	Metals Products	2002
44	TATA	Automotive	2001

Source: https://www.globalreporting.org/Pages/resource-library.aspx

Fig-4

INTERPRETATION:

From the above table, it clearly indicates that,

- TATA (Automotive) is pioneer in sustainability reporting in India. It has started reporting their sustainability performance from year 2001 based on GRI protocol.

- The trends of sustainability reporting practices has been increased from 2001 to 2012 i.e. 44. But according to latest report of GRI it has been reached in 72. Hence it shows increasing trend of sustainability reporting practices in India.
- Further it has been observed that, Sustainability reporting practices in India is very negligible in comparison to global context.

CONCLUSION:

According to Mahatma Gandhi, “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 it been handed over to us.”

When the planet had an unlimited supply of resources, organizations could say that they were only concerned with profits. Times have changed, and today, organizations need to be concerned about the planet and people, along with profits. Sustainable development does not mean discontinuing the use of natural resources but emphasizing efficient and effective use, so that resources can be preserved for the future generations. Organizations committed to sustainable development have to adopt a holistic approach, and put in place systems to report environmental and other impact caused by their products and services.

According to the Global Reporting Initiative (GRI), a sustainability report gives information about economic, environmental, governance and social performance. GRI is a non-profit organization that provides sustainability reporting guidance, and has pioneered and developed a comprehensive ‘sustainability reporting framework’ that is used globally. However, there are no mandatory rules and guidance standards for sustainability reporting. Furthermore, there is a debate over whether sustainability report should be part of financial statements, annual report, or disclosed separately. Practices followed by countries and companies vary in this regard. The GRI framework suggests that the sustainability reports should be included with a statement from the most senior decision-maker of the organization (CEO or equivalent) on the relevance of sustainability to the organization and its strategy, organization profile, governance structure, Engagement with the stakeholders and performance through environmental, economic, social and integrated indicators.

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