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AN ANALYSIS OF SUSTAINABILITY REPORTING IN INDIA – THE LEGAL FRAMEWORK, BENEFITS AND CHALLENGES

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Abstract:

The changing global business environment has enabled the companies think beyond financial performance and economical sustainability. The need to integrate social and environmental issues with the business strategies has seen a steady increase since the nineties. Financial performance alone does not determine whether a company is sustainable in the market or not. With the expectations of the business world changing, business enterprises must account for the impact caused to the society and the environment in which they operate. This calls for a threefold reporting namely Economic, Environmental and social reporting.

Emerging economies have adopted social and environmental reporting to a very large extent. Although India is far behind the developed countries in reporting standards, there has been a growing consciousness to adopt environmental and social reporting. This paper mainly focuses on the status of sustainability reporting in India. It also studies the need, benefits and challenges of sustainability reporting by going through the annual reports of the companies practicing sustainability reporting.

Key words: Sustainability, Environmental, Social, Financial performance.

Introduction

Over the last two decades, sustainability reporting has received considerable attention in the business world. Climate change, community health, education and development and other Environmental and Societal issues have had a significant impact on companies and they are forced to think in terms of the society and environment. Sustainability reporting in India is still in the infancy stage compared to the Western and European counterparts. Not

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all the sectors in the Indian business scenario account for Sustainability reporting. Sectors that have initiated this reporting include construction, metals and mining, oil and gas etc. However, the service sector which includes transport and communication, finance, banking and retail have a very few or no reporters. India is yet to integrate its business strategies with environmental and social issues.

Globally economic considerations, innovation, employee motivation and cost savings are some of key business drivers for companies to adopt sustainability. However, 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. The communication of sustainability report to stakeholders is primarily through company websites. However, the accessibility of such reports on the website is not prominent and very few companies make an effort to reach out stakeholders on their sustainability performance. Very few Indian reporters have sustainability strategy with well defined objectives and SMART (Specific, Measurable, Achievable, Realistic and Time-bound) targets. This clearly indicates that although many companies have started reporting their sustainability performance they have not channeled their efforts under a well defined sustainability strategy. The companies with well defined sustainability strategy elaborate on their strategic intent by clearly defining performance indicators that relate to the sustainability objectives and also report on annual performance and progress. Some companies have established systems for managing, measuring and reporting on key sustainability issues while for significant proportion of reporters, absence of a management system or framework is a concern as their sustainability reports may not reflect their actual performance.

Review of Literature

SijiCiyriac, (2013) revealed that in the study conducted, Europeans Companies have attained remarkable improvement in the sustainability reporting practices whereas Indian companies need to improve in their reporting, though some companies have attained considerable progress in their sustainability reporting. He also suggests that Indian companies need to improve in their disclosure practices on sustainability and accounting authorities should endeavor to regularize narrative reporting on sustainability.

It has been internationally recognized that sustainability reporting leads to improved business performance through communication of information with stakeholder groups like customers, suppliers, employees, financial institutions, regulators and communities on a company's economic, environmental and social management and performance. (RoopinderOberoi, 2012)

(Ernest & Young) Investors and consumers are placing strong pressure on companies to consider triple bottom line of social, environmental and economic performance, both in terms of specific company and across the supply chain.

Director Arvind Sharma, KPMG righty points out that Sustainability reporting is gaining momentum globally as an important communication tools for companies to disclose their sustainability plans and performance and enhance stakeholder confidence. The reporting scenario in India is still in nascent stage with nearly 40 companies disclosing their sustainability performance. It is estimated that more than 4000 companies around the world invest time and resources in producing sustainability reports. (Manfred Haebig, 2012)India's business and investment communitiesare beginning to recognize the benefits of sustainability reporting and organizational transparency. (Sustainability Reporting, Practices and Trends in India, 2012)

Elkington, (1997), coined the term 'Triple Bottom Line' (TBL), which implies corporations should focus not just on the economic value they add, but also on the social and environmental value they add and destroy.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. (K.S. Venkateshwara Kumar, et. al.)
From the above review of literature it is evident that the need for sustainability reporting is felt all over world by the companies and India being a developing country is slowing progressing with its efforts towards this issue taking into consideration the underlined concept of 'triple bottom line'.

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 transpar
ency and accountability of reports.

Objectives of the Study

Keeping these issues in mind the present research article sets out the following objectives:

1. To analyze the current status of sustainable reporting in India.
2. To study the regulatory framework with regard to Sustainability Reporting in India.
3. To understand the benefits and challenges for sustainability reporting in India.

Findings and Discussions

Objective

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).

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 andHealthcare & 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. Morecompliance 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 gofrom 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.

Objective

The regulation for sustainability reporting in India has changed over the years. From being a voluntary act to a mandate by law, sustainability reporting has evolved over the years. Following is the timeline that speaks about the evolution of Sustainability reporting in the eyes of the law in India.

YEAR	REGULATIONS
June 2007	The Department of Public Enterprises launched a Guideline on Corporate Governance for Central Public Sector Enterprises (CPSEs) that was voluntarily utilized for reporting under a pilot programme in the year 2008 -09. Subsequent to a progress review of the pilot, reporting against the guidelines was made mandatory
2009	The Ministry of Corporate Affairs launched the 2009 Voluntary Guidelines on Corporate Social Responsibility.
July 2011	The above guidelines were revised to launch the National Voluntary Guidelines on Social, Environmental and Economic responsibilities of business (NVGs). The guidelines are based on 9 principles around environmental and social sustainability.
Feb 2012	Launch of S&P BSE Greenex, an Index that includes the top 25 companies according to their performance against carbon emission offset/ f ootprint andfinancials.
Aug 2012	SEBI mandated the Top 100 listed companies in BSE/NSE as per market cap to include a Business Responsibility (BR) Report in their Annual Reports. The report was to be made on the basis of NVGs in the format prescribed by SEBI.
Nov 2012	Launch of S&P BSE Carbonex that lists companies based on their ESG performance. The BSE Carbonex can be considered a tilted version of the S&P BSE-100index.
Sep 2013	The Companies Act, 2013 mandates companies to spend 2 per cent of their an nual profit on CSR activities. A progress report on the activities undertaken is tobe included in the Annual Report and signed by a Director of the company.

Source: KPMG in India analysis

Thus it is very evident that the laws have been amended over the years to promote sustainability reporting in India.

Objective

Sustainability reporting has a wide range of business benefits. They are as follows:

1. It drives innovation and learning among the management. It helps to identify opportunities, risks and rewards with regard to various issues in a business.
2. It gains a higher profile with employees, investors and other stakeholders. It will also attract investors, retain employees and improve relations with all stakeholders.
3. Stronger communication is possible with all the sections in the society.

4. An increase in transparency will push for an increase in brand value of the company.
5. It gives a clear picture of the management of the company.
6. It reassures the investors that the company can manage non-financial risk.
7. There is proper integration of financial and social objectives of a company.

On the flip side, Sustainability reporting has a few drawbacks. They are as follows:

1. Rapidly evolving and changing regulatory framework.
2. Non availability of resources such as cost, time etc.
3. Training of employees becomes a difficult task when it comes to reporting.
4. The credibility of companies becomes a risk factor during a misinterpretation.
5. Breadth of topics under sustainability can be wide.

Conclusion

Sustainability reporting enables organizations to consider their impacts of wide range of sustainability issues, enabling them to be more transparent about the risks and opportunities they face. The need for sustainability reporting has been felt and India is making every effort to implement the same by encouraging more and more companies to adopt sustainability reporting over the years. Going by the facts about its current status, regulatory framework and the benefits and challenges, one can say that sustainability report is an organization report that gives information about economic, environmental, social and governance performance.

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