

## SUSTAINABILITY REPORTING PRACTICES IN INDIA: ITS PROBLEMS AND PROSPECTS

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### Abstract

This paper will try to provide an overview towards the development of Sustainability Reporting Practices in India. With a significant amount of reporting activity been done and as a emerging market in the world the importance of sustainability reporting in India is gaining lots of focus. 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. This paper will try to focus on the state of sustainability reporting practices in India. It will also try to analyze in brief the factors that caused slow pace on this front and will try to understand how to increase the depth and scale of the commitment of Indian Companies towards Sustainability Reporting in the years to come. ?

### Main Paper:-

"When it comes to shaping ethical behaviour , companies must be guided by three principles: respect for core human values, which determine the absolute moral threshold for all business activities; respect for local traditions; and the belief that context matters when deciding what is right and what is wrong" - Thomas Donaldson.

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### INTRODUCTION :

In 1972 a conference held at Stockholm, Sweden where the Swedish Government initiated the issue of human environment on the agenda of the United Nations. The serious impact of environmental effects with the rapid progress of Science and technology after World War II was in the backdrop of the same thought. The problem crossed the national boundaries over the time as the growing interdependence among the different nations pushed the need for a new concept to be discussed at international level which later on emerged as the concept of "Sustainable Development". The concept of sustainable development advanced by the Brundtland Report was defined as "development that meets the needs of the present without compromising the ability of future generations to meet their needs" (Brundtland 1987).

So question emerges how to report the Sustainable Development. Nowadays corporate reporting has emerged as a strong business card as it provides the reader a quick and comprehensive understanding of the organization. The rapid globalization and information efficiency in the market has led all the organizations towards a challenging task of providing information about their working and practices not only on financial aspects but also on the front of

environment and social perspectives. World Business Council for Sustainable Development defines Sustainability Reporting as "public reports by companies to provide internal and external stakeholders with a picture of the corporate position and activities on economic , environmental and social dimensions". KPMG defines Sustainability reporting as "Reports that include quantitative and qualitative information on their financial /economic, social/ethical and environmental performance in a balanced way"

Today consumers and other stakeholders are more environmentally conscious and are showing increased interest towards environmental issues (**Anderson and Skjoett -Larsen, 2009; Defee et al.2009**). Financial performances are no longer an exclusive driver of business. Economic, Environmental and Social factors are also playing a major role in its growth. Principles of social responsibility are being incorporated into sustainability guidelines compiling the three pillars of environment society and economy (**Sean Milmo -Chemical Market Reporter, 2005**). In recent years societal demand for environmentally sustainable manufacturing have driven companies to adopt environmental management practices that goes beyond compliance with regulation

(Schmidheiny, 1992; Smart, 1992). One significant development in this area has been the proliferation of industry generated codes of practice governing Environment, Health & Safety (EH&S) management (Nash and Ehrenfeld, 1996; Uzumeri, 1997). Having said that all an impression emerges that the companies should not fail to notice a development that is taking shape in the years to come.

### **Major Drivers and Advantages for Sustainability Reporting:-**

Today, reporting on non-market and non-financial issues, respectively, is crucial for successful business, because strong stakeholder relationship facilitated by communication provide or at least influence competitive advantages in a number of industries (Schaltegger, 2003). Corporate social responsibility is the major theme that led the way to Sustainability reporting. The stakeholders in any business now have better choices and availability of information to take some informed decision while transacting with any product of a company. So investment community a major stakeholder nowadays examining thoroughly the overall behaviour of a company apart from its financial parameters before putting their money on a company. Since India is now exposed to more globalization the industry leaders are facing challenges to represent many performance indicator related to Good Governance.

Internationally Dow Jones Sustainability Group Index clearly demonstrates that companies embracing a CSR approach perform better on the whole than those which do not. The day is not far off when CSR performance will be incorporated in the rating of Indian industries too, to facilitate the investors in their decision making process (Rajiv Kumar Debnath, 2005). The business strategy now focuses more on engagement and partnership with stakeholder which is actually the foundation stone for reporting CSR practices. Progress has been made in this regard with major western countries and in the last decade Indian industries have also tried to make a footprint in this regard. Following are some basic advantages that can justify the development of Sustainability reporting.

Reduction in the usage of resources and minimising the waste and the operating cost.

Create a competitive advantage over the peers.

It will enhance the confidence of investors and will attract more investment.

The more confidence from the customers will lead to more acceptance.

The local community will be developed with the more trust and cooperation by continued engagement with them and their support can be enjoyed through successful project implementation.

The relationship with the regulator will, be better through efforts of improvement on social and environmental dimensions.

Major benefits that can be accrued from sustainability reporting is the increased efficiency of the organization. Firstly through this reporting companies will collect information on sustainable initiatives and its achievements and measuring their value.

Secondly, it leads the companies towards innovation. Thirdly, the enhanced communication and engagement with the stakeholders will improve the relationship with stakeholders as it will boost the confidence that company can manage environmental and social duties and risks.

Hence, for an increasing number, not just for some pioneering companies, it may be merely a question of how to report on sustainability issues, and no longer a question of whether to report at all (Marshall and Brown 2003). Through sustainability communication, companies can demonstrate their overall performance, and illustrate business activities in a broader sense, finally to achieve better opportunities for market position (Schaltegger and Peterson 2000).

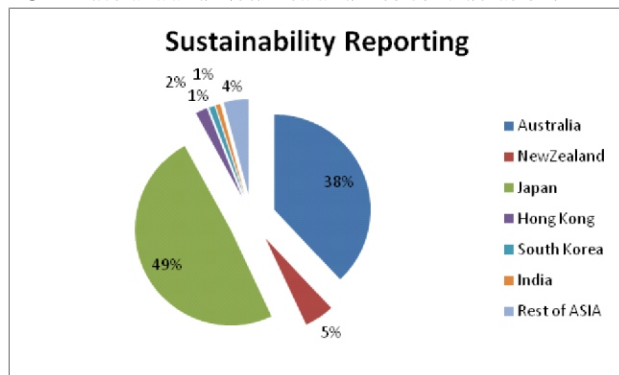
**State of Sustainability Reporting in India:-** Global Reporting Initiative (GRI) was established in 1997 which tried to popularize the sustainability reporting. It launched their first edition in 2000 and tried to spread it worldwide. In 2002, the second generation of sustainability reporting guidelines were issued and this was well accepted by the enterprise worldwide. In 2006 the third guidelines were issued by GRI. By 2005, 68% of Fortune 250 companies started using GRI guidelines (IBID).

KPMG in its research has shown an impressive growth in SR. In 2008 nearly 80% of the largest 250 companies issued SR which can be considered a 50% growth from 2005. Statistics published by GRI on SR shows that from January, 2010 to December, 2010 the number of sustainability reporting was increased by 22 percent. Largest Growth with a growth of 68% was located in Brazil compared to 2009. China was the biggest in Asia (9%) and

Switzerland in Europe (56%).

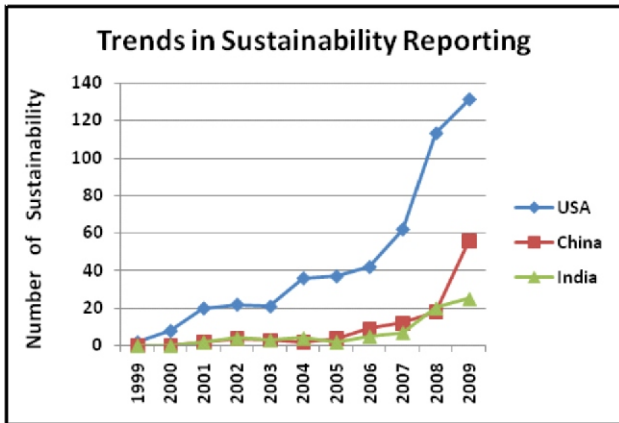
Compared to other countries like USA, UK, Germany and Australia Asian countries are well behind except Japan. In Asia major development has taken place in the East and South East Asia which includes Japan, Hong Kong, Malaysia and Singapore.

Maximum number of sustainability reports in Asian region has been contributed by Japan. But the reporting is not very widespread. Japan is an exception contributing highest in the world followed by UK. A few other countries Hong Kong, Malaysia, Singapore and South Korea and India has started progressing on this front. A state of reporting is being depicted in the following pie chart taking ASIA Australia and New Zealand into consideration.



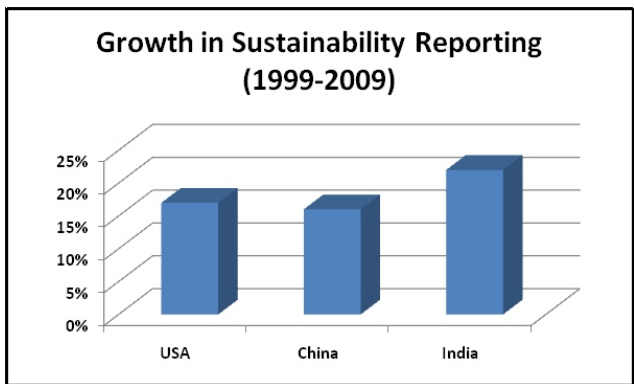
Source :-Corporate Register.Com Spring 2004 (based on a sample of 893 hard copy and PDF)

In China and India the sustainability reporting initiative was started in 2001 and had a very slow pace in its growth. But from 2008 to 2009 there was a remarkable growth in SR in China as 52 companies have reported in last year while till 2008 they had only single digit in number.



Source :- SGX Sustainability Report

However, with over 7,000 listed companies, India has only a handful (25) reporting on sustainability strategy, vision, performance or governance. These reporters are mainly from oil & gas, mining, cement, steel, minerals, automotive, pharmaceuticals and other such 'industrial' sectors (DNA August 2, 2007). In a research report published by a Singapore Based Company it was stated that in 1999 in USA the first sustainability report were released by only 3 companies and the number has gone up to 132 in 2009. 17% of the top 100 companies of USA (By revenue) have released sustainability report so far. The report also says that China in Asia have been the most prolific in releasing sustainability reports but still they could manage 16 % of the top 100 companies of their country. In India although the progress is slow but number of companies reporting was only 20 for the year ended 2009. These represent only 22 % of the 100 top companies in India ( In terms of revenue). Some the companies like Tata Chemical, TISCO, TELCO, Dr. Reddy's Lab, ITC, Jubilant Organosys etc. have taken a strong initiative in reporting their non financial performance.



Source:- SGX Sustainability Report.

While analyzing their reports on ESG Benchmarking by Asian Sustainability Rating (ASR) a collaboration between Responsible Research Pte Ltd of Singapore and CSR Asia the research found that India is having a diverse mix of leaders and laggards in disclosure. It was found that Indian Governance was significantly weak in disclosure as many of the companies provide incomplete disclosures compared to their global counterpart and regional peers in ASIA. Out of their study of 56 companies it was noticed that only one third of companies had a clear independent nomination committee and less than 20 % of companies had a clearly defined nomination procedure. Many private sector companies voluntarily disclose ESG information and

Government's intervention is less except some Public Sector Undertaking . It also identified two companies Wipro and Dr. Reddy's Lab as ASR leaders but belonging to two different industries. Lowest score was provided to two Real estate Companies (Unitech and India Bulls Real estate companies) as they were lacking in enforcement of standards and regulations. But the report suggests the spread of this reporting is very poor in India.

A sector wise report suggests that Information and Technology sector is performing well in every front except governance where Indian materials sector beats them. Banking and Real Estate sector is very poor performer constantly exhibiting poor reporting and disclosures in all areas. Except Dr. Reddy , the Health Care sector is also very poor compared to the Global Norms displayed by their Global peers.

One of the significant contributor to the sustainability reporting is environmental reporting. But again it is not so robust and conclusive. The environment reporting in India is still in its infancy and mostly a handsome public relation effort lacking all the strategic information. The reporting does not provide necessary information to the stakeholders and adequate database for further improvement. The reporting in general is unsystematic, piecemeal, and inadequate (A Sahay,2003 ). Factors leading to slow pace of reporting:-In India the Sustainability Reporting is more of a voluntary approach rather than a mandatory situation. So it is up to the choice of the companies to report on sustainability. The companies which are reporting is by their own choice to represent their companies as a strong business case in global front. Awareness is increasing but at a very slow pace. In India there are lot of drivers that enhanced dialogue, discussion and publication of Sustainability report. Drivers are somehow different than their counterparts in the world. As an example The NGO sectors put very less pressure to the companies on this front where in the other countries the NGO plays a very dominant role.

The major problem in India is to achieve a double digit growth and survive with the rest of the world. So bringing social and environmental concern never gets a priority when it is at the cost of the growth .So major concern remains in striking a balance between sustainable development and the overall inclusive growth agenda.

Since there is no Government initiatives there is no standardization also in ESG reporting .A wide variety of reports can be seen which are distinctly different in terms of

titles, length, approach, scope, depth and contents. Different companies adopting different techniques are sometimes actually confusing the stakeholders also. Most of the cases it is environmental reporting that actually dominates the reporting world of India which is not also even conclusive and lacking commitment. The reason for inadequate environmental disclosure is arising because the stakeholders (mostly the environmental groups, general public and above all the Government) are not strong enough to put pressure on the Indian companies .This situation arises because of lack of awareness rather a very low level of awareness of environmental performances among the community and stakeholders compared to the other developed countries in the world whereas India is more vulnerable to environmental hazards. There is no dearth of environmental legislations in India but the enforcement is poor.

If the Sustainability/UNEP 1998 is referred there comes out some important issues that led the corporate world not to report. The following points are mentioned there forth.

- The companies may have doubts whether it will prove beneficial for them.
- The domestic competitors are not publishing the reports.
- Customers may not be interested in therefore chance of increased sales will be a question mark.
- The company may have a good reputation already in its ESG performance.
- The Cost may not match the benefits derived so may seem to be expensive affair.
- Consistently gathering the data from different operations along with appropriate indicator selections may be a huge task.
- There might be other ways to communicate the ESG performance.
- Publishing such reports can always lead to damage to the reputation of the company if not dealt properly and may invite serious legal issues from environmental organizations.

So far as the major hurdles are concerned it is the lack of knowledge among the leaders and managerial departments over the issue of Sustainability Reporting.

In India there is no legal requirement to produce sustainability reports and also there is less demand of such information by the stakeholders. Many enterprises are not



very clear with the thorough understanding of triple bottom line reports which further downgrades the level of understanding. The combination of lack of legal requirement and less awareness among the stakeholders have led to this poor situation.

**Strategic options to increase the commitment level of Sustainability reporting:-**

Major Role can be played by the government in improving the involvement of different corporate towards the sustainability reporting. Role of government is an emerging and complex issue but a strategic tool also. The basic idea is that the Government will frame policies that will lead, support and pave the way to a good governance .The following framework suggests that Government interventions on CSR.

Role of Government			
Mandating	Command and Control Legislation	Regulators	Legal and Fiscal Penalties and Rewards
Facilitating	Enabling Legislations	Creating Incentives	Capacity Building
	Funding Support	Raising Awareness	Stimulating Markets
Partnering	Combining Resources	Stakeholder Engagement	Dialogues
Endorsing	Political support	Publicity and Praise	

Source:- "Public Policy for Corporate Social Responsibility" by World Bank Institute July,2003

The situation in various countries across the globe can be linked to the level of regulatory and social attention. This involves legislation on environmental and social reporting , in force in a few countries , and more importantly , other form of government encouragements of such type of disclosures , for example through the publication of official reporting guidelines (Kolk, 2003,2005;KPMG 2005).

For example French legislation remained as a major driver for increased reporting. It raised the awareness among the companies about the accountability on environmental and social issues. Similarly the publication of reporting and accounting guidelines in Japan has played a large role in stimulating the publications of such reports in this country. Change in business mindset and develop effective CSR practices is the need of the hour. The practice of reporting ESG should not act as a brand promotion but should be a

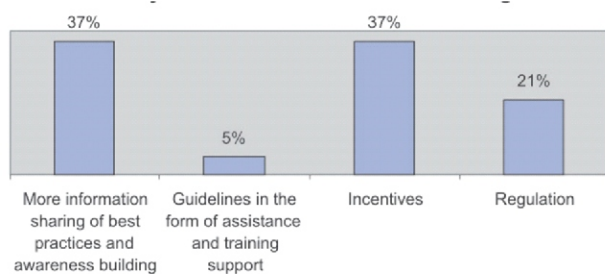
more fundamental approach with a change from the current business mindset and should be content specific and at the grass root level.

Increased education on Sustainability, information and sharing experiences: Many educationist believes that sustainability can be achieved by teaching three "e" environment, equality and economics along with traditional three "r" reading, writing and arithmetic. To achieve this an awareness of sustainability among individuals, communities, institutes, and Government needs to be fostered. In the coming future of Sustainability reporting a stronger bridge between the classroom and business will be of prime need. Education for sustainability is a lifelong learning process that leads to an informed and involved citizenry having the creative problem-solving skills, scientific and social literacy, and commitment to engage in responsible individual and cooperative actions. These actions will help ensure an environmentally sound and economically prosperous future (UNCED, 1992).

The concept of sustainability now crosses the domestic horizon so all stakeholder should work in common pursuit .The roles of citizens, communities , industry and Government must be improved and be directed towards a thoughtful comprehensive planning by the formal and non formal community for education. Success can be achieved if all the groups work together in this direction.

In December 2002, the United Nations General Assembly adopted resolution 57/254 to put in place a United Nations Decade of Education for Sustainable Development (DESD), spanning the years 2005 to 2014. UNESCO was designated as the lead agency for the Decade The overall goal of the Decade of Education for Sustainable Development (DESD) is the integration of the principles, values, and practices of sustainable development into all aspects of education and learning. (Source:-Canada commission for UNESCO WEBSITE). More initiatives from MNCs operating in India:-Since 1991, India has witnessed a dramatic increase of multinational corporation activity, giving rise to tremendous economic development of the country (Emde, 1999). The economic policy reforms of India removed constraints for entry of MNCs into India, allowed Indian companies to form joint ventures with the foreign companies, and encouraged a free inter-country transfer of technology and labor (Goyal,2006). An open economy, large manpower, and a weak environmental regulatory framework reduced the cost of doing business in

India as compared to other developing countries such as Brazil, Mexico, China, and Indonesia (Jain et.al, 2006). Indian companies which are supplying to MNCs are under tremendous pressure for showing transparency in reporting their non financial performances like work safety, energy consumption, social responsibility of the supply chain etc .To build confidence sustainability reporting acts as a quantified and qualitative tool. MNCs which are operating in India need to consider to put an emphasis on the development of India specific sustainability report in addition to their Global sustainability report .This specific report format will show a commitment for them to operate sustainably in India. With this kind of positive intention their brand image and operation in India will flourish. Motivating Indian companies towards sustainability reporting: TERI-BCSD (Business Council for Sustainable Development) made a survey with the CEO of Indian companies on sustainable development of their organisation and reporting on climate changes etc. When conducting a survey on this following motivating factors came out from the companies which clearly shows that more information sharing and awareness building and incentives and rewards for best practices will be the most motivating factor for them .21% also given preference for developing regulation on this issue.



Source:- TERI CBSD REPORT

Motivating the companies through incentives is also a well tool in this respect. In Asian culture the recognition by public plays a significant role. The Award schemes like Association of Chartered Certified Accountants (ACCA) corporate reporting awards in Malaysia, Hong Kong, Sri Lanka, and Pakistan provided a significant stimulus in promoting Sustainability Reporting (KPMG 2005).

**More stakeholders engagement needs to be addressed :-**  
One trend highlights that sustainability reporting is moving

away from a "managerial closed shop procedure" towards a "quasi public effort" of engaging and involving stakeholders (Spencer-Cooke 1995). Further to the development of valuing stakeholder relationships, another trend is towards a more customized approach (Isenman and Marx Gomez 2004). A focussed campaign to be drawn on the point that stakeholders are more critical about companies' business and well informed about their activities .This will bring pressure and will initiate activism on the part of the companies to report their non financial performance.

#### CONCLUSION:

India as a emerging market is now on limelight and is a cost-effective and high quality destination. So the world business community also expects that it will show some measures taken for developing some environment friendly and socially responsible practices. Many positive things have been done so far but lots need to be done for future growth of Indian industries. A recent report published by GRI website suggests that 78% of GRI sustainability reports from India contain complete information relevant to the reporting organization and externally assured, compared to just 24% globally (GRI's Year in Review 2009/10) . This must be a reason to cheer and a proof of a good beginning on this front. Indian corporate world can seize sustainability reporting as a business showcase and use it as great opportunity to demonstrate good governance and can carve out a special position in the Global Front

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