Scholarly Research Journal for Interdisciplinary Studies,
Online ISSN 2278-8808, SJIF 2016 = 6.17, www.srjis.com
UGC Approved Sr. No.49366, MAR–APR, 2018, VOL- 5/44

CORPORATE SUSTAINABILITY REPORTING PRACTICES OF SELECTED INDIAN COMPANIES

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Abstract

As the public concern over environmental degradation has increased, business organizations are facing challenge of giving more consideration to the natural environment. Pressure on corporations to disseminate information about their environmental actions and their impact is intensifying. Consequently Environmental Reporting has emerged as an important tool to assess benefits of changing environment from business communities' point of view and costs from society's point of view. Disclosure of environmental issues in the Annual Report is a fundamental requirement for a company in order to satisfy the information needs of its stakeholders, which include Shareholders, Creditors, Employees, Consumers, Government and Society at large. Present study is an attempt to find out level of disclosures among Indian companies.

Keywords: *Sustainability, Sustainability reporting, Environmental reporting, Mandatory v/s voluntary disclosures.*

SUSTAINABILITY AND SUSTAINABLE DEVELOPMENT

During last few decades the concept of sustainable development has established itself as an important concept not only at global level but also at corporate level. However, sustainable development means "different things to different people in different contexts". Although sustainable development also has older roots. Normally it is presumed that the concept of sustainable development originated from Brundtland Report 'Our Common Future' by the United Nations World Commission on Environment and Development of 1987. In the report,

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sustainable development is defined as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs"

Sustainable development includes three areas: economic growth, ecological balance and social progress. Though all these three concepts are important but until now the more attention was given to first two whereas social progress remained somewhat neglected, but now more emphasis is placed on social part. In recent years, growing social concerns like poverty, social inequality, corruption etc. and environmental concerns like carbon emissions, ozone layer depletion, water and noise pollution, have created a pressure on business for a more systematic treatment of sustainability reporting. Stakeholders want government to play an active role in promoting sustainability reporting. But there is problem in defining the sustainability as this term has different meaning for different persons. Korhonen (2003) findings that sustainability is "impossible to define and very difficult to measure, especially in monetary terms, but that there anyhow exists information enough to define the direction toward which companies should strive". Following table gives some of the significant definitions of the term sustainability reporting:

GRI: Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable

development. It is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts. A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions (GRI, 2006b, p. 3).

WBCSD

We define sustainable development reports as public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions. In short, such reports attempt to describe the company's contribution toward sustainable development. A 'one-size-fits-all' approach does not work for sustainable development reporting. It is up to each company to determine the approach it wishes to take, depending on its situation and needs. Be it an environmental report, a social report, an environment, health and safety report or an integrated report – also called triple bottom line, sustainable development or sustainability report – all these various reporting formats contribute toward sustainable development reporting (WBCSD, 2003, p. 7).

Accountability

The Report is a set of information prepared by the Reporting Organisation about its sustainability Performance, whether for general publication, targeted external distribution or internal use. This will generally refer to information contained within a specific Report prepared periodically to inform Stakeholders about the organisation's Sustainability Performance. The Assurance Provider may, however, choose to take a wider range of information into account when, for example, the main Report forms part of a broader set of communications on issues and aspects of performance they are assuring (Accountability, 2003, p. 32).

KEY EVENTS LEADING TO SUSTAINABLE DEVELOPMENT

Some key events during the last two decades that illustrate the growing interest in sustainable development are outlined below:

1972 : The United Nations Conference on the Human Environment, adopted at Stockholm on 16 June 1972.

1980 : World Conservation Strategy at Switzerland in 1980 for defining the sustainability Development.

1987 : Publication of "Our Common Future" by World Commission on Environment and Development, that coined and defined the term sustainable development.

1991 : Amnesty International UK Business Group, a mainstream international Non-Government Organisation (NGO) established and acknowledges the role of business in upholding human rights.

1992 : Rio Earth Summit where Agenda 21, the UN Framework Convention on Climate Change and the Rio Declaration was agreed upon.

2000 : UN Global Compact – An initiative by UN Secretary General, Kofi Annan, to promote global corporate citizenship for upholding ten fundamental principles in the area of human rights, labour, and environment protection.

2000 : UN Millennium Development Goals agreed upon to provide definitive, global list of development targets by 2015.

2001 : The New Partnership for Africa's Development (NEPAD) was formed to provide a common strategy for African countries to address development issues collectively.

2001 : At the fourth World Trade Organisation (WTO) ministerial conference in Doha, Qatar, a new round of trade negotiations focused on promoting development.

2002 : World Summit for Sustainable Development at Johannesburg underlines the need of working across sectors of society.

2006 : Amsterdam Global Conference on Sustainability and Transparency

2007 : 'Growth and Responsibility in a World Economy' G8 Summit Heiligendamm, Summit Declaration

2009 : GRI Amsterdam Declaration on Transparency and Reporting

BUSINESS INTEREST IN SUSTAINABLE DEVELOPMENT

With growing global interest in sustainable development during the last two decades, business also recognised the need and its role in this regard. Some significant recent international events in this connection are outlined below:

- **1994 :** Major companies begin to report voluntarily on environmental performance.
- **1996 :** A voluntary international standard (ISO 14001) for corporate environmental management system was formally adopted.
- **1999 :** Reverend Sullivan's corporate governance principles for South African companies were so successful that they were relaunched for companies operating globally.
- **2000 :** Corporate signatories to the UN Global Compact pledges to uphold 9 (later 10) fundamental principles in the area of human rights, labour rights and environmental protection.
- **2001 :** The European Union's green paper on Corporate Social Responsibility (CSR) affirms the European Community's increasing political importance of CSR by creating a regional framework for implementation of CSR practices.
- **2002 :** The banking industry agrees on a framework to assess environmental and social risks when financing projects.
- **2004 :** The world's largest ever gathering of leaders from business, government and civil society meet at Global Compact Leaders Meeting to discuss cross-sector collaboration.
- **2006 :** Third version of GRI Guidelines -known as G3 Guidelines was published.
- **2008 :** Financial Statements Act requires CSR disclosure for large businesses (Denmark).
- **2010 :** ISO concluded a new international guidance standard on Social Responsibility (ISO 26000).

MANDATORY V/S VOLUNTARY ENVIRONMENTAL DISCLOSURES

Due to economic expansion and the population growth there is a lot of pressure on diminishing natural resources one hand and it also results in degradation of environment. So, it is very clear that there is need of changing the way business is carried traditionally. Accounting and reporting is not an exception to this. Increasing awareness among the different groups of society needs a new era of public reporting. It means that conventional method of financial reporting is not enough. It also implies that non-financial reporting like social responsibility reporting also needs some change and needs expansion in the way information is reported. 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. There is a debate among academicians, business managers and legal experts about mandatory environmental reporting or voluntary environmental reporting. Corporations on one side demand that there should be voluntary disclosure of non- financial information including environmental information, on the other hand NGO and pressure groups mandatory disclosures as they believe that companies won't disclose objective information under the voluntary disclosures. Some experts believe that there must be voluntary initiative from the companies for environmental reporting. This will ensure a genuine effort from their side and would result in more conducive reports. But there is a fear among experts that this process may be very slow. So they want that there must be mandatory disclosures for the corporations as it will provide a level-playing field for all the companies. 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. In a similar vein, 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

REVIEW OF EXISTING LITERATURE

Following is the brief summary of studies on environmental reporting practices.

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) analysed 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, regulation by producing VESAD.

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 was 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.

OBJECTIVES OF THE STUDY

Following are the main objectives of the study:

1. To find out level of corporate disclosures in India.
2. To find out the items which are most frequently disclosed in corporate annual reports.
3. To find out the industry having most no. of disclosures.

METHODOLOGY OF THE STUDY

For the purpose of this paper, five sectors having more impact on the environment namely Textile, Cement, FMCG, Pharmaceutical and Petroleum are selected. For selecting different companies from these sector, BSE 500 Index is taken as base. The rationale behind selecting BSE-500 index as sample is that these companies account for a sizeable share of market capitalization in indian security market and covers almost all the important companies of all the sectors. Different companies from these sectors has been taken from index and ranked according to their revenue. Ten top companies for each sector are analyzed for the purpose of measuring environment reporting practices.

After going through many books, journals and environmental reports etc, the index proposed by United Nations Environment Programme (UNEP) has been adopted with some modifications for the purpose of this paper. After a small survey of annual reports of various companies 35 items have been selected. A score of “0” is given for non- disclosure of item and a score of “1” is given for discloser of item. The score obtained is used for further analysis.

FINDINGS OF THE STUDY

Following are the findings of the study based on 50 annual reports of companies for the year 2016-17.

Item-Wise disclosures

For the purpose of finding item wise disclosure the index is calculated by dividing number of companies disclosing the particular item with the total no. of companies taken in the sample. Following table shows the item wise disclosure of the companies.

1 Top Management Statement	48
2 Environmental Policy	42
3 Environmental Management System	52
4 Management Responsibility and Accountability	20
5 Environmental Auditing	26
6 Goals and Targets	6
7 Legal Compliance	28
8 Research and Development	28
9 Awards	50
10 Verification	24
11 Material Use	100
12 Energy Consumption	100
13 Water Consumption	30
14 Eco-efficiency / Clean Technology	60
15 Accident and Emergency Response	12
16 Risk Management	40
17 Land Contaminationand Remediation	26
18 Stewardship of Local Habitats and Eco-systems	24
19 Waste Minimisation and Management	48
20 Air Emissions	34
21 Water Effluents	32
22 Noise and Odours	6
23 Transportation	4
24 Product Stewardship	8
25 Packaging	6
26 Environmental Spending	12

27 Environmental Liabilities	6
28 Market Solutions, Instruments and Opportunities	6
29 Environmental Cost Accounting	0
30 Charitable Contributions	6
31 Technology Cooperation	10
32 Global Environment	10
33 Global Operating Standards	58
34 Visions, Scenarios, Future Trends	18
35 Report Design and Accessibility	14

Table reveals that highest disclosure is regarding material consumption and energy consumption as it is mandatory under the Indian laws. Among other items companies disclosed Clean technology 60%, Global Operating Standard 58% Environmental Management System 52%. Least disclosed items are Environmental cost accounting 0% and Transportation 4%

Industry-Wise Disclosure

Industry wise disclosure index is calculated by dividing total score attained by all the companies related to particular sector with the total maximum score that can be attained. Data shows that highest disclosure is among Oil and Gas companies closely followed by Cement companies. Least disclosure is among Textile companies.

Industry	**Disclosure Index**
Textile	15.71
Cement	40.28
Pharmaceutical	22.00
Oil and Gas	41.42
FMCG	22.57

Company	**Disclosure index**
Alok Industries Ltd	20.00
Arvind Limited	5.71
Bombay Dyeing and Mfg. Co. Ltd	14.29
Bombay Rayon Fashion Ltd.	8.57
Century Textiles Ltd	20.00
Raymonds Limited	8.57
S kumar Nationwide Ltd	14.29
SRF Ltd	8.57
Koutons Retail India Ltd	5.71
Provogue India Ltd.	5.71
ACC Ltd	40.00
Ambuja Cements Ltd	45.71
Birla Corporation Ltd	20.00
Dalmia Cements (Bharat) Ltd	20.00
Grasim Industries Ltd	34.29
Shree Cements Ltd	42.86
Madras Cements Ltd	8.57

India Cements Ltd	8.57
JK Cements Ltd	5.71
Ultratech Cements Ltd	28.57
Aurobindo Pharma Ltd.	28.57
Cadila Healthcare Ltd.	20.00
Cipla Ltd.	11.43
Dr Reddy's Laboratories Ltd.	28.57
Glaxo Smith Kline Pharmaceuticals Ltd.	5.71
Lupin Ltd.	5.71
Piramal Healthcare Ltd.	11.43
Ranbaxy Laboratories Ltd.	25.71
Sun Pharmaceutical Inds Ltd.	5.71
Wockhardt Ltd.	5.71
Bharat Petroleum Corpn Ltd.	28.57
Chennai Petroleum Corporation Ltd.	22.86
Essar Oil Ltd.	28.57
Gail (India) Ltd.	40.00
Hindustan Petroleum Corp Ltd.	28.57
Indian Oil Corporation Ltd.	17.14
Mangalore Refinery & Petro Ltd.	37.14
Oil India Ltd.	22.86
ONGC Ltd.	28.57
Reliance Industries Ltd.	34.29
Britannia Industries Ltd.	20.00
Dabur India Ltd.	20.00
Glaxo smithkline Consumer Healthcare	8.57
Hindustan Unilever Ltd.	20.00
ITC Ltd.	37.14
Nestle India Ltd.	20.00
Nirma Ltd.	11.43
REI Agro Ltd.	5.71
Ruchi Soya Industries Ltd.	5.71
United S pirits Ltd.	5.71

Table shows highest disclosure is by Ambuja Cements followed by Shree Cements and GAIL Ltd.

CONCLUSION

Following are the conclusions drawn from the study:

1. Environmental reporting is becoming more vital with the passage of time.
2. There is no specific framework for reporting as some items have high disclosure and other items are ignored all together by companies while preparing reports.
3. There is lot of variation in the disclosure score between various industries like the level of disclosure is quite high in oil &gas and cement companies but it is very less among textile companies.

4. Some companies like Ambuja and Shree cements have high disclosure but other companies have very low disclosure index.

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