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Corporate Sustainability Reporting Practices: A Comparative Study of Practices by Indian and European Companies

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Abstract

This study attempts to examine the sustainability reporting practices of top Indian and European companies. It also examined and compared the various sustainability disclosure practices of the top Indian and European companies for a period of one year, i.e., 2011. The study explores the type and extent of information on sustainability being disclosed by the companies with the help of a disclosure Index. The index of disclosure of sustainability used in this paper consisted of an extensive list of 99 items, as voluntary disclosure items. The study reveals that European 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 sustainable reporting.. On the basis of the results, it can be suggested that Indian companies need to improve in their disclosure practices on sustainability. Secondly, the accounting authorities should endeavor to regularize narrative reporting on Sustainability

Keywords: Sustainability reporting, stakeholders, performance measurement

1. Introduction

The emergence of the information era in the last decade of the twentieth century led business to operate in a challenging market place that is rapidly changing, evolving complex, moving global, hypercompetitive, and intensely stakeholder-focused. The organization responded to these pressures of information age in a unique manner. There is a greater understanding that corporate strategy can be crafted to encompass a larger picture that not only enhances competitiveness but also ensures responsible and sustainable growth. It is important that such initiatives are encouraged through stakeholder awareness and response. No longer, can companies gain sustainable competitive advantage by merely monitoring efficient allocation of tangible resources like physical assets and excellent management of financial assets and liabilities. A key purpose of Sustainability Reporting is to assist organizations, both large and small, in identifying the cross-cutting dimensions of triple bottom line performance and in understanding the process that the organizations can start to measure, report and improve the business decisions. The effort is to create sustainable value for the organization and its stakeholders. Sustainability value is the ability to grow in the long run by synthesizing with the natural, social and human capital including intangible assets such as management skills, reputation, human and intellectual capital, and the assets are often excluded from the balance sheet. Globally, there is a growing trend towards business providing economic, environment and social information into the public domain through Sustainability Reports. 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. (Roopinder Oberoi, 2012).

Companies are viewing sustainability issues through a strategic lens, according to a recent survey done by Earnest & Young in Cooperation with Greenbiz Respondents - Executives from 24 industrial sectors - indicated that the top five factors driving corporate sustainability initiatives are Energy cost reduction (93%), changes in customer demand(87%), brand risks (87%), increased stakeholder expectations (86%), and competitive threats (81%). Investors and consumers are placing strong pressure on companies to consider the 'triple bottomline' of environmental, social and economic performance, both in terms of specific company and across the supply chain. (Ernest & Young).

Sustainable development is a fluid concept and various definitions have emerged over the past two decades. The origin of the term SD lies in the 18th century but it was at the 'Club of Rome precipitated an international discussion due to its report "Limits to Growth". (Meadows, 1972). In the course of this discussion, an eco-development approach was emerged which effected the protection of resources and environment coming to the fore. In 1987, the world commission on Environment and Development defined SD as an ethical concept and it has become the major definition of SD. Accordingly Sustainable Development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts; the concepts of "needs", in particular the essential needs of the world's poor, to which overriding priority should be given; and the idea of limitations imposed by the State of technology and social organization of the environments ability to meet present and future needs. This paper documents an investigation into the reporting practices for sustainability by the top Indian and US companies with the objective of understanding and comparing their disclosure practices over a period of time.

2. The Background of Sustainability Reporting

In contrast to financial reporting, the history of sustainability reporting (SR) is comparatively recent. The proposition that organizations, and business organizations in particular, should supplement their financial accounting with accounting on their environmental, social and other 'non-financial' performance – or 'sustainability reporting' – first emerged in the 1990s. At the time of the 1992 UN Conference on Environment and Development (UNCED), relatively few companies engaged in SR in any form. Responding to the increasing media attention to environmental problems, most reports focused on environmental policies and performance.
While calls for SR initially stemmed mainly from advocacy groups and investors, as well as some business leaders, governments played a historic role in formally recognizing the importance of this new dimension of reporting. It is often overlooked that environmental reporting was specifically recognized by the world's governments in Agenda 21, one of the main outcomes of

the UNCED conference. There it was agreed that *'business and industry, including transnational corporations, should be encouraged to report annually on their environmental records, as well as on their use of energy and natural resources'.* (UNCED conference, 2002)

In the decade between UNCED and the 2002 World Summit on Sustainable Development (WSSD), a number of initiatives were undertaken to explore and advance SR. Among these the most notable was the Global Reporting Initiative (GRI). Launched first in 1997 as a pilot project, it was a multi stakeholder initiative to design a framework that could make reporting on an organization's economic, social and environmental performance as routine and accepted as financial reporting. When GRI was officially launched in April 2002, around two hundred pioneering companies were using the GRI framework to report annually on their sustainable development policies and
practices. By the time of the WSSD, the concept had sufficiently matured for governments to formally recognize both SR and the role of GRI. In the Johannesburg Plan of Implementation, they noted that enhancing corporate environmental and social responsibility and accountability could be achieved by *actions at all levels to: (a) encourage industry to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues, taking into account such initiatives as the ISO standards and Global Reporting Initiative guidelines on sustainability reporting....(GRI Reporting, 2011)*

It should be noted that the decision to pursue a voluntary approach to SR at this point was not universally supported. There were many in the non-government organization (NGO) community who argued that effective corporate transparency and accountability could only be achieved through binding national legislation based on an international treaty. This argument did not prevail for a number of reasons, including the fact that financial reporting, while not voluntary, was largely based on standards developed by professional associations, and not legislation. The decision was made, instead, to explore the potential and flexibility of voluntary SR reporting, recognizing that it was still a very new field, where agreement still needed to be forged on the relevant issues and metrics.

By the beginning of 2012, it is clear that the concept of SR has become firmly lodged as a desirable and increasingly mainstream practice in key sectors worldwide. The underlying proposition of SR is that progress towards a Green Economy and sustainable development cannot be made unless information is disclosed on the economic, social and environmental impacts and performance of business and other organizations. It appears to be widely recognized that, together with financial information, sustainability information is essential if regulators, companies, investors and the wider community are to be able to measure and understand an organization's contributions to sustainable development. (The future of sustainability reporting, Paul Hohnen, 2012)

3. Key drivers of Sustainability Reporting

Regulators: Governments at most levels have stepped up the pressure on corporations to measure the impact of their operations on the environment.
Customers: Public opinion and consumer preference are a more abstract but powerful factor that exerts considerable influence on companies, particularly those that are consumer-oriented.

NGOS and the media: Public reaction comes not just from customers but from advocates and the media, who shape public opinion.
Employees: Those who work for a company bring particular pressure to bear on how employers behave; they, too, are concerned citizens beyond their corporate world.
Investors: Increasingly, investors want to know that companies they have targeted have responsible, sustainable, long term business approaches. (GRI, 2011)

4. Research Methodology

Universe and Sample of the Study

The top 50 companies ranked on the basis of revenue in the 'Compendium of Top 500 Companies in India constitute the universe of the Indian Companies, where as the top 50 companies ranked on the basis of revenue in the Fortune Global 500 European Companies constitute the universe of the European companies. First 50 most valuable companies of India in the Compendium of Top 500 Companies in India, 50 European, companies listed in the Fortune Global 500 World's largest Corporations constitute the sample. Banking, Insurance, and financial companies have been excluded from the purview of this paper because such companies need to follow different disclosure requirements from country to country.

Sources of Data Collection

Published annual reports and sustainability reports of the companies happen to be the primary sources of data. Annual reports of the European and Indian Companies are collected from the websites of the companies. Annual Reports of some of the Indian and European companies were obtained after sending e-mail requests and registered letters at their respective addresses. The rest were downloaded from their respective websites of the companies..

Period of the Study

The corporate annual reports and Sustainability Reports of the Indian and European Companies have been collected during the fiscal period 2010 - 2011.

Scope of the Study

The Scope of the Study is limited to the disclosure in the Annual Reports as well as the Sustainable Development Reports of the Indian and European companies. Knuston (1993) suggested that annual reports are typically the most important source of information for most analysts. In addition, Lang Lundholm (1993) found a high, positive correlation between annual report disclosure and other disclosure in other sources (such as press releases or regulatory filings). The study explores whether the company releases a separate Sustainability reports or just includes these in the annual reports only.

Disclosure Index

A Disclosure Index is used to examine whether corporations engage in disclosure practices of particular information in annual Reports or Sustainability Reports (Marston and Shrives, 1991). Many researchers have utilized a disclosure index for examining the disclosure practices of various aspects like intangibles, Risk related information etc. The index of disclosure on sustainability used in this paper consists of an extensive list of items as per the GRI (Global Reporting Standard), applicable to a wide range of users, which appear in an Annual Report/sustainability Reports. The Index includes voluntary disclosure items.

Classification of Disclosure Index Items

A.	Economic Performance Indicators		
	A1. Economic Performance		4
	A2.Market Presence		3
	A3.Indirect Economic Impacts	2	
	A4.Risk related Disclosures		6
B.	Environmental Performance Indicators		
	B1: Materials		2
	B2:Energy		5
	B3:Water		3
	B4: Biodiversity	5	
	B5: Emissions, Effluents and Waste		10
	B6: Products and Services	2	
	B7: Compliance	1	
	B8: Transport		1
	B9: Overall		1
C.	Social Performance Indicators		
	C1: Employment	4	
	C2: Labour/Management Relations		2
	C3:Occupational Health and Safety		4
	C4: Training and Education		3
	C5: Diversity and Equal Opportunity		1
	C6: Equal Remuneration for Women and Men	1	
D.	Human Rights Performance Indicators		
	D1: Investment and Procurement Practices	3	
	D2: Non Discrimination	1	
	D3: Freedom of Association and Collective Bargaining	1	
	D4: Child Labour		1
	D5: Forced and Compulsory Labour		1
	D6: Security Practices		1
	D7: Indigenous Rights	1	
	D8: Assessment	1	
	D9: Remediation	1	
E.	Society Performance Indicators		
	E1: Local Communities	3	
	E2: Corruption	3	
	E3: Public Policy		2
	E4: Anti competitive behaviour	1	
	E5: Compliance	1	
F.	Product Responsibility Performance Indicators	9	
	F1: Customer Health and Safety	2	
	F2: Product and Service Labeling	3	
	F3: Marketing Communications	2	
	F4: Customer Privacy		1
	F5: Compliance	1	

Source: GRI Index

Disclosure Index can be assigned either weighted or unweighted scores. A lot of controversy exists on this issue. A number of researchers have made use of the weighted disclosure index where items have been assigned weights according to either the importance or the type of disclosure (Bergamini and Zambon, 2005; Kang, 2006). On the other hand, Williams (2001) and

Citron, *et al* (2005) used unweighted index giving equal importance to all the disclosure items. The argument given by them is that annual reports are read by a wide variety of users and each class of user will attach different weights to an item. As a result, weighted index involves the issue of subjectivity. Further, Robbins and Austin (1986) found that using a weighted disclosure index does not materially affect the results of possible determinants of disclosure. This view is also supported by Cooke (1989) and Firth (1980). This paper uses the unweighted index as the use of unweighted dichotomous index reduces subjectivity involved in determining the weights of each item (Williams, 2001; Ahmed and Courtis, 1999; Courtis, 1986). The disclosure item is scored as one (1) if it is disclosed in the annual report or zero (0) if it is not disclosed in the annual report. Thus, the total disclosure score in terms of number of items being disclosed is determined. This total disclosure score has been converted in percentage terms by applying the following formula:

$$\frac{\text{Total number of items appearing in the annual report}}{\text{Maximum number of items which should appear in annual reports}} \times 100$$

5. Technique for Analysis of Information Sustainability Reports

The websites of Indian companies and European companies were scanned for sustainability reports and they were downloaded. All the organizations which published their sustainability reports had put them up on their websites and none of the companies contacted for sustainability reports replied affirmatively about their release of sustainability in the hard form. These reports were then scanned through to analyse the quantity and quality of sustainability related information. Quantity of sustainability communication were measured through the number of pages and the number of words in the report and analysed if the Index given by GRI is present in the report. An analysis has also been done with regard to the Length of the report, color of the report, visuals used etc.

6. Status of SR Indicators – Indian Companies vis-a-vis European Companies

Table.1

Reporting Indicators	**No of Companies Disclose (%)**	
	India	Europe
1. Economic Performance	36	64
2. Environmental Performance	54	66
3. Social Performance	50	50
4. Human Rights Performance	60	48
5. Society Performance	58	67
6. Product Responsibility	61	66

7. Sustainability Report Analysis

Table 2.

	India		Europe	
Parameters	**Total No 50**	**Average**	**Parameters**	**Total No 50**
Publishes Report				
Yes	25	50.00%	42	84.00%
No	25	50.00%	8	16.00%
Length of the Report (Pgs)	1480		1680	
Coloured				
Yes	25	100%	42	100%
No	0		0	
Colours used	24	96%	40	95%
Most used colour	Green (14)	56%	Blue (18)	42.85%
Visuals	208	14.05%	557	33.15%
No of Companies With GRI Index	18	72.00%	42	84%
Total Disclosure Score	**1175**	**72%**	**2730**	**84%**

The number of Indian companies publishing sustainability reports is very low. About 50 per cent of Indian companies studied release a separate sustainability report as against 84 per cent of European companies. The reason for few Indian companies publishing sustainability reports is that corporate environmental reporting is voluntary. The total disclosure score for Indian company is 72% and the European Company is 84%. European companies have included more visuals and colours than Indian companies. Both Indian and European annual reports contain information related to environment, social responsibility and economic activities. It is important to note that though there are many Indian companies which publish sustainability reports, which do, match the European in their content and inputs.

Further research can be conducted based on the sustainability reports of various countries and various regions etc. Researchers also can make a study of the sustainability reporting practices and see if there is any relationship with financial performance.

8. Conclusion

The goal of sustainable development is to "meet the needs of the present without compromising the ability of future generations to meet their own needs." As key forces in society, organizations of all kinds have an important role to play in achieving this goal. Yet in this era of unprecedented economic growth, achieving this goal can seem more of an aspiration than a reality. As economies globalize, new opportunities to generate prosperity and quality of life are arising though trade, knowledge-sharing, and access to technology. However, these opportunities are not always available for an ever-increasing human population, and are accompanied by new risks to the stability of the environment. Statistics demonstrating positive improvements in the lives of many people around the world are counter-balanced by alarming information about the state of the environment and the continuing burden of poverty and hunger on millions of people. This contrast creates one of the most pressing dilemmas for the 21st century.

One of the key challenges of sustainable development is that it demands new and innovative choices and ways of thinking. While developments in knowledge and technology are contributing to economic development, they also have the potential to help resolve the risks and threats to the sustainability of our social relations, environment, and economies. New knowledge and innovations in technology, management, and public policy are challenging organizations to make new choices in the way their operations, products, services, and activities impact the earth, people, and economies.

It is important that insistence on publication of sustainability reports should be made because the internationally accepted format of publishing social information is balanced and ensures that organizations quantify and present detailed information about all categories such as economic, environment, society, human rights, labour practices and product responsibility, each of which appeals to a set of stakeholders. Further there is a scope of self-declaration, third party authorization as well as benchmarking against a standardized set of parameters (GRI Indicators) accepted by the international community which ensures uniformity and credibility upon the disclosed information. The sustainability reports are published under different names and are also known as CSR reports which have the international benchmarking through the GRI guidelines. The Indian companies fall away short against the MNCs in the number of companies which publish sustainability reports primarily because it is not mandatory in India for companies to publish a separate sustainability report. Yet, it is noteworthy that though the number of Indian companies publishing sustainability reports is few but the standards and quality of the published reports match the global benchmarks in terms of content of the report.

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