

# SUSTAINABILITY REPORTING TRENDS IN INDIA

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The changing global environment is challenging companies to look beyond financial performance to drive business. Business leaders are increasingly realizing the need to integrate environmental and social issues within the business strategy. An emerging trend is the inclusion of Corporate Responsibility elements, especially climate change, into the CEO agenda. 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 of our time. Businesses are increasingly involved in these areas as are their clients and their people. This raises the importance of accurately and transparently accounting for and reporting these activities.

Sustainability reporting is gaining momentum globally as an important communication tool 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. Sectors that lead the reporting initiative in India include construction and building material, metals and mining, oil and gas and chemicals while sectors like transportation, finance, trade and retail and communications and media have few or no reporters. However, the industry has been showing positive signs in embracing this concept and recent policy developments including 'National Voluntary Guidelines on Social, Environmental and Economical Responsibilities of Business' will bolster the reporting efforts in India.

Globally economic considerations, innovation, employee motivation and cost savings are some of key business drivers for companies to adopt sustainability; 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.

Most of the Indian reporters use Global Reporting Initiative (GRI) guidelines to prepare the sustainability report while referring to other international standards and charters like UNGC guidelines, IFC standards on sustainable development, WBCSD focus areas and sector specific frameworks such as API/IPIECA guidelines and ICMM sustainable development framework. Of the companies declaring GRI application level, it has been observed that almost all companies declare the A/A+ application level. Most reporters believe that a higher application level is equivalent to better sustainability performance and in this process they lose out on communicating key priorities to the stakeholders. Also, very few companies use the feedback from stakeholders to define the report content. Use of company's risk assessment framework and company's sustainability strategy to select report content is extremely low which reaffirms the fact that sustainability issues do not have clear linkage with the business strategy of the companies.

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. Companies have also not been able to use sustainability reports to get listed on sustainability indices globally which is evident from the fact that handful of Indian companies are listed on indices such as DJSI and FTSE4Good.

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.

Almost all the reporters declare their governance aspects under 'Code of Conduct/Ethics' and provide the information on corporate governance as reflected in their annual reports. Few companies have attempted to link sustainability framework to corporate governance and fewer companies have integrated sustainability elements in their risk management framework. While significant number of reporters refer to ISO 9001, ISO 14001 and OHSAS 18001 management standards, only handful companies have a defined role of internal audit to review the controls over non-financial data. This raises questions over the quality and accuracy of the reported data and outlines where significant work needs to be done to make the reporting process more robust.

The senior management review, resource allocation and competency of implementing agency within the company for sustainability is a key challenge for Indian companies. Many companies have designated the responsibility of sustainability to a standalone Sustainability Cell, EHS department or Corporate Communications department mostly without direct oversight by the Board of Directors.

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. Climate change has emerged on the key sustainability risks across industries but only small number of companies report on climate change risks and also on other forums such as Carbon Disclosure Project (CDP). Supply chain risks have huge impact on companies but it has been observed that very few companies have supplier code of conduct and include regular supply chain audits as a part of their normal operations.

Third party assurance of corporate responsibility reports has been accepted by a large number of sustainability reporters in India. The IT services, construction and building materials and oil and gas sectors in India have the most assured reports. There is an increasing trend of companies engaging accountancy firms for assuring their sustainability reports in India. They are followed by certification bodies as assurance providers. The major drivers for companies to engage with third party assurance

providers are increasing credibility of the report and improving the reporting process. It was also observed that a majority of the reports that are being assured use ISAE 3000 standards. Reporters in India have just begun to adopt AA 1000 Assurance Standards for sustainability reporting. Almost all the assurance statements are based on limited or moderate level of assurance.

Overall, there is enough evidence that Indian companies are now paying increased attention to sustainability issues and large companies have started to establish a clear link between sustainability and risk management. A recent trend observed is to include sustainability elements as part of internal audit so that the issues are discussed at the board level. However, there is still a long way to go before sustainability is fully integrated into business strategy.

Although corporate responsibility seems to be in the experimental phase in India as of now, significant progress in both the number of reporters and quality of information reported is expected, in the coming years. The expectations from Indian reporters going forward is to focus on presenting information related to:

- Sustainability issues, challenges, dilemmas and opportunities.
- 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.
- Reader friendly report design.

At the regulatory level, various directives have been issued and with some still in pilot stage. The Institute of Chartered Accountants of India (ICAI) has set up the ICAI – Accounting Research Foundation (ICAI-ARF), which has undertaken a special project to suggest a suitable framework for sustainability reporting for Indian companies. Further, the Ministry of Corporate Affairs, Government of India in association with the Indian Institute of Corporate Affairs has released the voluntary guidelines on social, environmental and economic responsibilities of business. In the financial sector, there is a visible trend to promote environmentally and socially responsible lending and investment, with the Reserve Bank of India recently issuing a circular for highlighting role of banks in promoting sustainable development.

There is no doubt that corporate responsibility is here to stay and businesses have realized the value of embracing sustainability and more so making it a part of their overall business strategy.