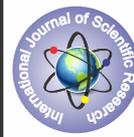


“Corporate Environmental Disclosure by Indian Companies –An Empirical Analysis”



Accountancy

KEYWORDS: environmental disclosure, corporate annual reports, environmental information disclosure index.

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ABSTRACT

The disclosure and reporting practices of corporate entities about the effects of their activities on the environment is generally termed as corporate environmental disclosure.

The study examines the regulatory framework prescribed for reporting and disclosure of environmental issues by corporate entities and the extent of environmental information disclosure by corporate entities through their Corporate Annual Reports (CARs) in India. CARs relating to the year 2014-15 of 12 companies listed in the BSE SENSEX, were studied for the purpose with the help of an “Environmental Information Disclosure Index” (EIDI). The results indicate that apart from the mandatory requirements, disclosures practices of Indian corporate houses are satisfactory and they have fared well in assuming the responsibility of environmental information disclosures. There are also evidences of Indian companies voluntarily joining international initiatives focused towards sustainable environmental practices and disclosure.

1. INTRODUCTION:

The corporate practice of communicating to the stakeholders about the impact of the organisation's actions on the environment is termed as corporate environmental disclosure and reporting. It includes voluntary and involuntary disclosure of the activities of the entity concerning the environment. Traditionally, environmental disclosure constitutes a part of corporate social responsibility (CSR), which means corporations should be held accountable for any of its actions that affect people, communities and the environment. CSR reporting or sustainability reporting is mainly non-financial in nature.

The corporate houses are the biggest users of environmental resources and the economic activities undertaken by corporate entities in the process of providing goods and services to the consumers seriously affect the environment in various countries across the globe. Since the last three decades, environmental degradation has caused serious concerns and as a result both at the national and international level a number of initiatives are being undertaken. It is well accepted now that corporate houses need to behave in a more responsible way while using scarce environmental resources. Further that, apart from their effort for profit maximization, wealth creation and shareholders' value creation they should also exhibit necessary efforts to achieve a bench mark of corporate ecological performance. The corporate entities are also expected to come forward to inform the stakeholders and the society about the measures and initiatives undertaken by them to protect the environment, to replenish the resources used and also to lessen the adverse effects of the activities to the environment and the society by adopting measures and technologies that are available, irrespective the cost of such measures and technologies.

The disclosure of information by corporate houses regarding the environmental implications of their operations is being viewed as a moral and ethical responsibility across various countries in the world. Corporations all over the world disclose environment information in corporate annual reports and research findings suggest that the trend is increasing over years. The nature, extent and the disclosure requirements of corporate environmental disclosure varies from country to country as the stages of economic development and levels of awareness and attitudes towards corporate environmental disclosure differ from country to country.

There are roughly two approaches of environmental disclosure, one is descriptive and qualitative, and the other is quantitative in nature. While under the first approach qualitative information concerning

environmental issues and various initiatives undertaken by the entity to protect and safeguarding the environment are disclosed, under the second approach quantified information regarding the extent of environmental degradation caused by the entities and the technical initiative and expenses incurred by them in the process of safeguarding and protecting the environment and minimising the ill effects of their operation on the environment are made available. In the present study is based on the first approach of environmental disclosure as the quality of environmental disclosure by the sample companies has been examined.

Although the present study deals with the extent of corporate environmental disclosure in India, it will be necessary to place corporate environmental disclosure in the context of the broader CSR reporting.

It is worthwhile to note that in India we do not have any formal well defined set of guidelines or adequate regulatory framework compared to the developed countries for environmental disclosure and therefore corporate houses design their own mechanism and follow certain practices for environmental disclosure.

2. LITERATURE REVIEW:

In the following paragraphs an effort has been made to review the literature on the area of corporate environmental disclosure.

Deegan and Gordon (1996) conducted a study about the environmental disclosure practices of Australian companies based on content analysis of the annual reports. The study observed low voluntary environmental disclosure in Australia but concluded that there was an increase in voluntary environmental disclosures during the period of study.

Gautam and Bora (1996) studied the annual reports of 25 organizations from Assam and found that out of the sample companies 13 companies did not show any concern for environmental information disclosure. Majority of the companies confined their environmental disclosure by making generalized statements about protection of environment, pollution control, and conservation of energy. The study concluded that the quality of environmental disclosure was very poor and that such information cannot be a basis for right decision making.

Eric and Tsang (1998) conducted a study in the banking, food and beverages, and hotel industries from 1986-1995 in Singapore. The study concluded that of the 33 companies only 17 companies

disclosed corporate social reporting information on human resources, community involvement, environment and others. The banks disclosed significantly less social information than the hotels and banking industry.

Belal (1999) conducted a study on companies established in Bangladesh about their CSR practices and the results concluded that maximum number of companies made disclosure on employees, followed by disclosure on some environmental issues and lastly on some ethical issues.

Bhate (2002) investigated the extent to which consumers of India are aware of environmental issues and the study concluded that Indians are well aware and concerned about environmental issues.

Idowu and Towler (2004) in their empirical research found that increasing number of companies in UK, irrespective of their size are recognizing that corporate social reporting is beneficial for them. The study concluded that 80% of FTSE-100 companies provide about either their environmental performance or social impact or both.

The existing literature on reporting of environmental practices by companies shows that most of the studies have focused on companies in the developed countries and that there are few studies that document the environmental reporting practices of organizations in developing nations like India. The present study aims to address this gap by studying the environmental disclosure practices employed by the various corporate entities in India with the help of a disclosure index.

3. OBJECTIVES OF THE STUDY:

The study proposes to examine the environmental disclosure practices of Indian Companies. The main objectives of the study are as follows.

1. To examine the Legal Framework for Environmental Disclosure in India.
2. To examine the extent of Environmental disclosure by the sample companies in relation to the Environmental Information Disclosure Index.
3. To examine the response of Indian companies in relation to some of the global initiatives concerning environment disclosure, viz, **The Global reporting Initiative (GRI)**, The United Nations Global Compact and the Triple Bottom Line approach.

4. RESEARCH DESIGN:

The BSE SENSEX comprises of 30 companies which are most actively traded and these companies are representatives of various industrial sectors of the Indian economy. Out of the 30 constituent companies in the BSE SENSEX as on 31st January 2010, a total of 7 companies were from Finance and Information Technology sector, and these companies are excluded from the study on the assumption that companies of these two sectors are not engaged in any activity that may affect or degrade the environment. From the remaining 23 companies 12 companies were selected at random for the present study. The annual reports for the year 2014-15 relating to the sample companies were studied to identify their environmental disclosure practices. An "Environmental Information Disclosure Index" (EIDI) listing 33 items of information has been constructed to find out the actual disclosure practices in these companies.

Before inclusion of the items in the EIDI, "disclosure index" based published research papers and articles in the area on CSR reporting and environmental disclosure was consulted and accordingly the items have been finally selected. After developing the index, various worksheets have been prepared for every company for the financial years 2014-15 detailing the environmental information reported by it.

As the constituent companies in the BSE SENSEX comprises the most actively traded stocks and are representatives of various industrial sectors of the Indian economy it is most likely that the corporate environmental disclosure practices of these companies will represent the best current corporate environmental disclosure practices in India.

Table1 gives an overview of the companies considered for the study along with the sector form which they belong.

Table I. List of Companies considered for the Study

| Sl. No. | Industry Group | No of Companies | Names of Companies | Percentage |
|---------|--------------------------------|-----------------|--------------------|------------|
| 1 | Capital Goods | 1 | L&T | 8 |
| 2 | FMCG | 2 | HUL,ITC | 17 |
| 3 | Healthcare | 1 | SPIL | 8 |
| 4 | Metal, Metal Products & Mining | 2 | HIL,TSL | 17 |
| 5 | Oil & Gas | 2 | ONGC,RIL | 17 |
| 6 | Transport Equipments | 4 | HHM,MML, MSIL,TM | 33 |
| | Total | 12 | | 100 |

Source: Authors' own compilation.

5. SOURCES OF DATA

The present study is exploratory in nature and is based on secondary data. CARs of the sample companies have been considered to analyze the environmental disclosure practices. The disclosure of items included in the EIDI has been used to find out the actual environmental disclosures by the companies.

6. LEGAL FRAMEWORK FOR ENVIRONMENTAL DISCLOSURE IN INDIA:

In the following paragraph an effort has been made to identify the various provisions under the regulatory framework which mandates the reporting and disclosure of environmental disclosure in the CARs of Indian companies.

6.1. Reporting under the Companies Act 2013:

The Companies Act in India governs the overall regulation of companies in India and includes provisions for disclosure and reporting on various aspects of company operations.

Section 166(2) of the Act has entrusted a responsibility on the Board of Directors to act among others for the protection of environment. It stipulates,

"A director of a company shall act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment"

Section 134(3) of the Act read with Companies (Accounts) Rules, 2014, stipulates that the Board of Directors' Report shall contain information on,

(m) the conservation of energy, technology absorption, foreign exchange earnings and outgo, in the manner as prescribed.

Rule 8(3) of the Companies (Accounts) Rules, 2014 stipulates that: The Board of Directors' report under section 134(3)(m) of the Indian Companies Act 2013 shall contain the following information and details namely:-

- (A) Conservation of energy -
- (i) the steps taken or impact on conservation of energy;
 - (ii) the steps taken by the company for utilising alternate sources of energy;
 - (iii) the capital investment on energy conservation equipments;

6.2. Reporting under the SEBI Guidelines.

The Securities Exchange Board of India (SEBI) in the, has made it mandatory for top 500 listed companies to submit Business Responsibility Reports (BRR) that consists of 9 principles as a part of their CARs. Accordingly the BRR should describe measures taken by the listed companies along with key principles enunciated in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' framed by the Ministry of Corporate Affairs (MCA). This is intended to be adopted by companies in India to report their CSR activities and initiatives. It can be seen that amongst various principles enumerated in the Business Responsibility Report, many of them demands the companies concerned to provide information relating to the environment mandatorily.

The following are the excerpts of various sub points under the applicable principles that necessitate disclosure of information concerning the environment and use and conservation of energy.

Under Principle 2:

1. Listing up of 3 of products or services whose design has incorporated social or environmental concerns, risks and/or opportunities.

2. For each such product, to provide the following details in respect of resource use (energy, water, raw material etc.) per unit of product (optional):

i. Reduction during sourcing/ production/ distribution achieved since the previous year throughout the value chain?

ii. Reduction during usage by consumers (energy, water) has been achieved since the previous year?

5. Whether the company has a mechanism to recycle products and waste?

If yes, what is the percentage of recycling of products and waste (separately as <5%, 5-10%, >10%). To provide details thereof, in about 50 words or so.

Under Principle 6:

2. Whether the company has strategies/ initiatives to address global environmental issues such as climate change, global warming, etc.? If yes, to give hyperlink for webpage etc.

5. Whether the company has undertaken any other initiatives on - clean technology, energy efficiency, renewable energy, etc. If yes to give hyperlink for web page etc.

3. Whether the company identify and assess potential environmental risks?

4. Whether the company has any project related to Clean Development Mechanism?

If so, to provide details thereof, in about 50 words or so. Also to provide information whether any environmental compliance report is filed?

5. Whether the company has undertaken any other initiatives on - clean technology, energy efficiency, renewable energy, etc. If yes, to provide hyperlink for web page etc.

6. Are the Emissions/Waste generated by the company within the permissible limits given by CPCB/SPCB for the financial year being reported?

7. Number of show cause/ legal notices received from CPCB/SPCB which are pending (i.e. not resolved to satisfaction) as on the end of Financial Year.

The above provisions show that the companies must be well aware about the various environmental issues concerning their organization affecting the environment and should practice judicious use of energy. Further the organizations are also required to report and disclose them accordingly as prescribed. The primary responsibility for adherence and comply with of all applicable provisions relating to reporting and disclosure aspects of a company rests on the Board of Directors of a company.

7. GLOBAL INITIATIVES AND CONCERNS FOR ENVIRONMENTAL REPORTING AND DISCLOSURE.

The following are some of the worldwide initiative concerning the environmental issues of corporate business houses among others.

7.1 The Global reporting Initiative (GRI)

The Global Reporting Initiative (known as GRI) is an international independent standards organisation that helps businesses, governments and other organizations to understand and communicate the impact of their organization on issues such as climate change, human rights and corruption. GRI guidelines enable companies to assess their economic, environmental, social and governance performance by focusing on organisation's most critical impacts and reporting the positive or negative impact on the environment, society and the economy.

In India there are companies who have voluntarily adopted the GRI guidelines for sustainability reporting, e.g. Airtel, HIL, Infosys, ITC, L&T, ONGC, RIL and Wipro to name a few.

7.2 The United Nations Global Compact

The United Nations Global Compact is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report about their implementation. The following are the principles (out of total 10 principles) mentioned under the UN Global Compact, applicable for the Environment.

PRINCIPLE 7: Businesses should support a precautionary approach to environmental challenges;

PRINCIPLE 8: Businesses should undertake initiatives to promote greater environmental responsibility; and

PRINCIPLE 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.

The UN Global Compact is the world's largest corporate sustainability initiative. In India there are number of companies who have adopted UN global Compact initiative. Some of these companies are BHEL, ONGC, HUL, Infosys, RIL and TSL.

7.3 Triple Bottom Line Approach (TBL or 3BL)

Triple bottom line is an accounting framework with three distinct parts: social, environmental and financial. The Triple Bottom Line approach indicates People, Planet and Profit (3Ps). People refer to community and work force of the region where the organisation conducts its business. Planet refers to sustainable environmental practices and Profit refers to the economic value created by the organisation after setting off cost of all inputs including the cost of capital used and locked up. In India we have a number of companies which have adopted the TBL approach in preparation of their financial statements. Companies for e.g., BHEL, HIL, ITC, M&M, RIL, TCS and Wipro are prominent among them and these companies have added a new dimension to corporate reporting.

8. ANALYSIS OF CORPORATE ANNUAL REPORTS:

The findings based on the analysis of the annual reports of the sample companies are enumerated below.

8.1 The extent of Environmental Disclosure made by the sample companies in relation to the Environmental Disclosure Index:

The following table shows the extent of Environmental Disclosure by

the sample companies in relation to the EIDI.

A score of "1" has been awarded to a company if an item in the EIDI is disclosed in their CAR otherwise "0" has been awarded. The percentage of disclosure shown against each of the items has been obtained by dividing the disclosure score of each item in the year by the number of sample companies, i.e., 12 and then by multiplying the result by 100. For e.g., only 4 companies disclosed the item "Air Emission Information" in their CARs, therefore the "Disclosure Score" of that item is 4 and the "Percentage of Disclosure" for that item is 33.33%. (i.e, 4/12×100).

The following table shows the items of corporate environmental information included in the EIDI in alphabetical order along with the "Disclosure Score" and "Percentage of Disclosure" of the respective items.

Table 2. Item wise Disclosure of Corporate Environmental Information.

| SI No. | Items of Corporate "Environmental Information Disclosure Index" (EIDI) | Disclosure Score | Percentage of Disclosure |
|--------|---|------------------|--------------------------|
| 1 | Air Emission Information. | 4 | 33.33 |
| 2 | Certified Energy Management System (ISO 50001:2011) | 2 | 16.67 |
| 3 | Certified Environment Management System (EMS) (ISO 14001:2004) | 9 | 75 |
| 4 | Conservation of natural resources. | 7 | 58.33 |
| 5 | Creation of Green belts/ Green Zones. | 6 | 50 |
| 6 | Energy Management Policy | 7 | 58.33 |
| 7 | Environmental policies of Company | 12 | 100 |
| 8 | Green House Gas Verification Certification (ISO 14064-2006) | 1 | 8.33 |
| 9 | Information about Energy Conservation | 12 | 100 |
| 10 | Information about Technology Absorption Adaption and Innovation | 12 | 100 |
| 11 | Information on Earning of Carbon Credits (Carbon Emission Reductions) | 3 | 25 |
| 12 | Initiatives on Rain Water Harvesting | 8 | 66.67 |
| 13 | Initiatives Taken for Clean Technology/ Renewable Energy Generation | 7 | 58.33 |
| 14 | Initiatives to Reduce Carbon Footprint | 7 | 58.33 |
| 15 | Judicious use of Natural resources. | 4 | 33.33 |
| 16 | Land reclamation/water conservation and forestation programmes. | 8 | 66.67 |
| 17 | Measures to Enhance Energy Efficiency | 8 | 66.67 |
| 18 | Participation in the Carbon Disclosure Project (CDP) | 3 | 25 |
| 19 | Pollution Control of Industrial Process. | 6 | 50 |
| 20 | Provision of Water Treatment Facilities | 4 | 33.33 |
| 21 | Recycling of Water and Waste Management Programme | 10 | 83.33 |
| 22 | Registered Clean Development Mechanism (CDM) Projects with UNFCCC | 7 | 58.33 |
| 23 | Regular Environmental Monitoring. | 4 | 33.33 |
| 24 | Service of Documents in Electronic Form (Green Initiative by MCA) | 9 | 75 |
| 25 | Setting of Carbon Emission Reduction Targets | 3 | 25 |
| 26 | Support for Public and Private initiatives to protect Environment. | 8 | 66.67 |
| 27 | Total and Consumption of Energy Per unit of production | 7 | 58.33 |
| 28 | Use of Efficient Facilities and processes to reduce environmental damage. | 6 | 50 |
| 29 | Use of Efficient Plant and Machineries to save energy. | 6 | 50 |

| | | | |
|----|---|----|-------|
| 30 | Use of Nano Technology. | 1 | 8.33 |
| 31 | Use of Plant and Machineries that confirms to Ecological Standards. | 7 | 58.33 |
| 32 | Use of Renewable Energy OR Alternate Sources of Energy | 11 | 91.67 |
| 33 | Water Management Policy | 8 | 66.67 |

Source: Authors' own compilation.

The above table shows the extent of corporate environmental disclosure by the sample companies. There are three items in the EIDI which has been disclosed by all the companies, i.e., with 100% disclosure, these are, Environmental policies of Company, Information about Energy Conservation and Information about Technology Absorption Adaption and Innovation. The information on Use of Renewable Energy has a disclosure of 91.67%. The next item with 83.33% disclosure is Information on Recycling of Water and Waste Management Programme. The lowest score 8.33% is recorded for two items, viz. ISO 14064-2006 certification on Green House Gas Verification and Use of Nano Technology, followed by the item ISO 50001:2011 certification on Energy Management System which a score of 16.67%. The disclosure score of the remaining items in the EIDI are between 25% and 75%.

8.2 Scores Obtained by the Sample Companies:

The following table reveals the total scores obtained individually by the sample companies depending on the scores they have secured by disclosing the items included in the EIDI.

Table 3. Scores Obtained by the Sample Companies

| SI No. | Company Name | Total Scores Obtained | Score in Percentage |
|--------|--------------|-----------------------|---------------------|
| 1 | ITC | 26 | 79 |
| 2 | L&T | 24 | 73 |
| 3 | MML | 23 | 70 |
| 4 | ONGC | 22 | 67 |
| 5 | HIL | 20 | 61 |
| 6 | TSL | 19 | 59 |
| 7 | RIL | 19 | 58 |
| 8 | HHM | 19 | 58 |
| 9 | MSIL | 14 | 42 |
| 10 | HUL | 12 | 36 |
| 11 | TM | 11 | 33 |
| 12 | SPIL | 7 | 21 |

Source: Authors' own compilation.

The average disclosure score of the all the sample companies is 18. In the top of the list with a score of 26 is ITC Ltd, followed by L&T Ltd and MML with scores of 24 and 23 respectively. In the other extreme the lowest score of 7 is obtained by SPIL. The score of the remaining companies fall between the range of 11 and 23.

8. CONCLUSION AND RECOMMENDATIONS:

The discussion in the previous section shows that Indian companies are disclosing and reporting a good number of environmental items in their CARs. All the companies disclosed the information required under Section 134(3)(m) of the Indian Companies Act 2013 and the Business Responsibility Report. However it is found that the present legal requirements regarding disclosure of environmental issues by corporate entities in India are very limited. Reporting of environmental issues is mostly voluntary in nature and may be termed to be at a developing stage. Indian corporate houses have realised the need and importance of adequate corporate environmental disclosures and have started responding positively in this front, partly because of the legal requirements and partly as a moral, ethical and social responsibility to repose the confidence of various stakeholders in their functioning along with their enterprise performance. The growing acceptance of the CSR to disclose environmental issues by

Indian corporate entities can be witnessed from the significant amount of environmental information disclosed in their CARs. Moreover the voluntarily adoption of the Global reporting Initiatives (GRI) guidelines for sustainability reporting, the adoption of Triple Bottom Line (TBL) approach for preparation of financial statements and voluntary participation in the United Nations Global Compact programmes for sustainable and socially responsible policies shows the growing acceptability of the ethical and moral responsibility and commitment towards sustainable environmental practices by a section of Indian companies.

However keeping in mind the severity of environmental pollution and degradation caused by the corporate entities and the disclosure and reporting norms prescribed so far for corporate entities in India in the area environmental issues, it is the need of the hour is to tighten the disclosure requirements. Environmental information disclosure will remain only as compliance of applicable rules and regulations unless it is planned, approved and applied from top to bottom.

REPORTS.

Annual Reports of the sample Companies for the year 2014-15

Abbreviation used against the names of Companies.

| | |
|------|------------------------------------|
| ITC | ITC Ltd |
| L&T | L&T Ltd |
| MML | Mahindra & Mahindra Ltd |
| ONGC | ONGC Ltd |
| TSL | Tata steel Ltd |
| HIL | Hindulco Industries Ltd. |
| RIL | Reliance Industries Ltd. |
| HHM | Hero MotoCorp Ltd |
| MSIL | Maruti suzuki india limited |
| HUL | Hindustan Unilever Limited |
| TM | Tata Motors Ltd |
| SPIL | Sun Pharmaceutical Industries Ltd. |

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