

# Environmental and Social Reporting by Indian Companies

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## EXECUTIVE SUMMARY

- Recent years have witnessed a stronger focus on long-term sustainable value in companies rather than short-term profitability.
- The need for greater transparency on sustainability issues has compelled companies to engage in environmental and social reporting, including in India.
- The regulatory framework enabling such reporting has rapidly evolved in India and companies have demonstrated an upward trend in the incidence and quality of reporting.
- However, a number of challenges remain: the lack of standardisation in reporting requirements, overreliance on regulatory mandates rather than innate business culture and the lack of clarity regarding the audience who benefits from such reporting.
- Corporate boards and other stakeholders can take adequate steps to promote more meaningful environmental and social reporting.

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## I. Background to Environmental and Social Reporting

Corporate governance advocates, including the investor community, have lately called for greater emphasis on the long term sustainable value (LTSV) of companies rather than an unbridled pursuit of financial profits.<sup>2</sup> The LTSV approach requires corporate boards to consider the environmental and social risks companies face and to communicate with various stakeholders on how they propose to address these risks. In that context, stakeholders place enormous reliance on environmental and social reporting as a means to induce companies to operate with a view to enhance LTSV. It is now well-recognised that reporting extends well beyond financial matters and to other qualitative criteria that relate to sustainability. Greater transparency on environmental and social matters would compel companies to pay heed to wider stakeholder interests and devise specific goals and strategies towards LTSV.

A number of reasons can be attributed to the move towards LTSV. First, there are evident connections between sustainability and corporate performance in that various stakeholders such as investors and consumers reward companies that focus on LTSV. Such companies may even enjoy a distinct competitive edge. Second, and quite naturally, LTSV and the long-term interests of shareholders and other stakeholders enjoy a great deal of alignment. Third, and somewhat intriguingly, large institutional investors themselves have not only been willing to merely eschew short-termism, but they have also been at the forefront of the campaign in favour of LTSV. Finally, governments and regulators of various countries have followed suit and begun prescribing measures towards a sustainable approach. The stakeholder responsibility of corporate boards and the concept of corporate social responsibility (CSR) introduced in India's Companies Act, 2013 are emblematic of the legislative and regulatory momentum towards LTSV. In all, market factors as well as regulatory mandates have driven the march towards corporate sustainability and a broader stakeholder-oriented approach.

More specific to environmental and social reporting, a process of uniformity has ensued at a global level since various international bodies have begun publishing guidelines and standards that companies around the world may adopt. The best known among them is the Global Reporting Initiative (GRI), a non-governmental entity that has published the GRI Reporting Framework that forms the touchstone for environmental and social reporting by several thousand companies in nearly 90 countries.<sup>3</sup> Illustratively, others include a set of codified standards established by the Sustainability Accounting Standards Board (SASB) and the more specific climate-related financial risk disclosures by the Task Force on Climate-related Financial Disclosures (TCFD).

Against this backdrop, the goal of this briefing is to examine the status of environmental and social reporting by Indian companies. It will consider both the positive developments and challenges and conclude with some steps that corporate boards and other stakeholders in India can take towards more optimal environmental and social reporting that would lead to the pursuit of LTSV.

2 See, Vikramaditya S. Khanna, *Global Asset Managers and the Rise of Long Term Sustainable Value*, NSE-CECG Quarterly Briefing, October 2018, available at [https://www.nseindia.com/research/content/QB\\_October\\_2018.pdf](https://www.nseindia.com/research/content/QB_October_2018.pdf).

3 See, GRI, Indian Institute of Management, Bangalore & Tata Consultancy Services, *Sustainability Integration: Corporate Reporting Practices in India* (2016), available at <https://www.globalreporting.org/resource/library/GRI-IIMB-TCS%20Study%202016.pdf>.

## II. Regulatory Developments in India

Environmental and social reporting in India was historically lax. While some leading companies nonetheless undertook voluntary initiatives, the overall trends were hardly encouraging. The Government of India then intervened to establish an appropriate policy framework to encourage companies to undertake sustainability reporting on a wider basis. The Ministry of Corporate Affairs (MCA) in 2009 released the Voluntary Guidelines on CSR, which were revamped in 2011 to take the form of the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (NVG). Through nine principles and related core elements, the NVG represents the bedrock of pronouncements towards LTSV in Indian companies (Box 1).

### Box 1: National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business

**Principle 1:** Businesses should conduct and govern themselves with ethics, transparency and accountability.

**Principle 2:** Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

**Principle 3:** Businesses should promote the wellbeing of all employees.

**Principle 4:** Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.

**Principle 5:** Businesses should respect and promote human rights.

**Principle 6:** Businesses should respect, protect, and make efforts to restore the environment.

**Principle 7:** Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.

**Principle 8:** Businesses should support inclusive growth and equitable development.

**Principle 9:** Businesses should engage with and provide value to their customers and consumers in a responsible manner.

**Source:** Ministry of Corporate Affairs, Government of India, *National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business* (July 2011), available at [http://www.mca.gov.in/Ministry/latestnews/National\\_Voluntary\\_Guidelines\\_2011\\_12jul2011.pdf](http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf)

The transition from voluntariness to a regulatory mandate occurred on 13 August 2012 when the Securities and Exchange Board of India (SEBI) made it mandatory for the top 100 listed companies based on market capitalisation to include Business Responsibility Reports (BRR) as part of their annual reports.<sup>4</sup> The BRR format was designed to include disclosures regarding adherence to the nine principles set out in the NVG. Listed entities submitting sustainability reports to overseas regulators, stock exchanges or stakeholders based on internationally accepted reporting framework are exempted from preparing a separate BRR, although they are required to furnish their abovementioned sustainability reports by mapping the disclosures according to SEBI's BRR requirements.

<sup>4</sup> Securities and Exchange Board of India, Circular on *Business Responsibility Reports* (13 August 2012), available at [https://www.sebi.gov.in/sebi\\_data/attachdocs/1344915990072.pdf](https://www.sebi.gov.in/sebi_data/attachdocs/1344915990072.pdf).

With the issuance of the SEBI (Listing Obligations and Disclosure Requirements), 2015, the BRR requirements were expanded to encompass the top 500 listed companies by market capitalisation thereby enlarging the universe of coverage of BRR. Subsequently, on 6 February 2017, SEBI created an enabling regime by which the top 500 listed companies by market capitalisation may adopt integrated reporting on a voluntary basis. Such integrated reporting would ensure that stakeholders receive both financial and non-financial information and that there is “concise communication about how an organisation’s strategy, governance, performance and prospects create value over time”.<sup>5</sup>

It is clear that the regulatory framework has been strengthened quite rapidly. What started as a voluntary approach quickly transformed itself into a mandatory requirement, at least for large companies. SEBI has also evolved and expanded the BRR requirements within a short span of time.

Given that Indian companies are reporting according to both international frameworks such as GRI standards, as well as domestic requirements such as BRR obligations imposed by SEBI, there have been efforts to harmonise the reporting. For example, one effort aims to enable companies to make use of both the GRI standards and SEBI’s BRR requirements to enhance transparency by creating a linkage between the two to demonstrate how companies can ensure adherence to both sets of standards.<sup>6</sup> These efforts help Indian companies meet both local as well as global standards, and thereby the needs of different sets of stakeholders.

### III. Reporting Trends and Challenges in India

There has been a considerable increase in the incidence and quality of environmental and social reporting by Indian companies in recent years. A process that largely began due to pressure from investors (particularly foreign institutions) received further momentum through regulatory mandates. The GRI standards continue to be prominent among Indian companies.

The demand side has been buoyed as well with investors and other stakeholders displaying keener interest in understanding the environmental and social risks associated with a company’s business. This puts pressure on companies to disclose the strategies in place for addressing these risks (Box 2).

There appears to be a greater focus on environmental issues when it comes to the Indian reporting requirements. For instance, 87% of the reporting provisions in India deal with environmental issues, while 35% deal with social issues and 32% with governance issues. This is consistent with the immensity of the environmental challenges facing the country.<sup>7</sup> For example, the key subject areas for sustainability reporting are:<sup>8</sup>

- Waste;
- Emissions/pollution;
- Water;
- Energy; and
- Resources.

5 Securities and Exchange Board of India, Circular on *Integrated Reporting by Listed Entities* (6 February 2017) para 2, available at [https://www.sebi.gov.in/legal/circulars/feb-2017/integrated-reporting-by-listed-entities\\_34136.html](https://www.sebi.gov.in/legal/circulars/feb-2017/integrated-reporting-by-listed-entities_34136.html).

6 Global Sustainability Standards Board & BSE, *Linking the GRI Standards and the SEBI BRR Framework* (February 2017), available at <https://www.globalreporting.org/standards/resource-download-center/linking-the-gri-standards-and-the-sebi-brr-framework/>

7 The Reporting Exchange, *Sustainability reporting landscape in India* (11 October 2018), available at <https://www.wbcsd.org/contentwbc/download/5760/76829>.

8 Ibid, at 6.

**Box 2: Sample Analysis of Sustainability Disclosures by Indian Companies**

- “37% of senior management statements discuss overall vision and strategy, particularly with regard to managing significant sustainability impacts”,
- “43% of the sample organizations discuss ‘strategic priorities’ or ‘key topics’”,
- “41% cite broader trends (such as macroeconomic or political trends) that pose risks”, and
- “Just 22% of the statements provide an outlook on the organization’s main challenges, targets or goals associated with a time horizon”.

**Source:** GRI, Indian Institute of Management, Bangalore & Tata Consultancy Services, *Sustainability Integration: Corporate Reporting Practices in India* (2016), available at <https://www.globalreporting.org/resourcelibrary/GRI-IIMB-TCS%20Study%202016.pdf>

There is evidence of greater usage of integrated reporting by Indian companies, and their reliance on obtaining external assurance for their non-financial disclosures.<sup>9</sup> While environmental and social reporting in India has developed rather quickly, it has also been accompanied by several challenges, some of which merit discussion.

First, the standards relating to environmental and social reporting are evolving at a rapid pace, thereby introducing some level of uncertainty and lack of clarity. This is compounded by the adherence of Indian companies to both international standards such as GRI standards and national standards such as the SEBI-prescribed BRR requirements. The proliferation of standards has an effect of poor reporting outcomes. While there is merit in ensuring that local aspects are considered (e.g., water resource management in drought prone areas or providing employment to special groups of the population in remote areas), duplication of efforts through specific local requirements may be counterproductive. Contrastingly, greater standardisation of reporting requirements would enhance comparability of the disclosures and generate a more tangible impact.

Second, disclosures continue to lack the required comprehensiveness. For instance, as the data provided earlier indicate, more can be done to ensure that the disclosure compel managements to clearly outline the impact of environmental and social risks, the specific consequences to various stakeholders and the company’s strategy for addressing them, including a step-by-step approach with a definitive timeframe. Unless companies are induced to address the details, such reporting carries the risk of primarily signifying rhetoric rather than carrying substance.

Third, the trends in India suggest an overreliance on regulatory nudging in comparison with a strong business case that exists for environmental and social reporting. Legally prescribed standards must not overshadow the need for an innate culture among companies to make sustainability disclosures. Evidence suggests that not all top managements accord priority to these reporting initiatives. Without this, the quality of reporting cannot be expected to get better. A related risk is that of “greenwashing” where sustainability reporting is used as a public relations tool. This would engender behaviour that motivates embellished disclosure of positive aspects and suppression of the negative aspects.

<sup>9</sup> GRI, Indian Institute of Management, Bangalore & Tata Consultancy Services, *Sustainability Integration: Corporate Reporting Practices in India* (2016), available at <https://www.globalreporting.org/resourcelibrary/GRI-IIMB-TCS%20Study%202016.pdf>

Fourth, an abject obscurity pervades when it comes to the precise audience that is to benefit from environmental and social reporting. Given that the regulatory requirements are driven by SEBI as the regulator of the securities markets, it is intuitive to consider investors as the beneficiary of the disclosures. However, the details of the reporting requirements such as materiality assessment of risks point towards a diverse range of other stakeholders as well, including employees, environment, consumers and the community. This carries the risk that non-shareholder constituencies rely upon what is targeted primarily at an investor audience. In the end, it may very well be that the multiplicity of stakeholders involved can lead to disclosures that benefit no one at all. Regulators as well as reporting companies must be conscious of such risks and zealously guard against their adverse consequences.

Finally, greater clarity needs to evolve around the linkages between environmental and social reporting and CSR. While the reporting requirements focus on the broader notions of sustainability, CSR as designed under the Companies Act, 2013 narrowly focuses on matters of corporate philanthropy. The linkages must not reduce sustainability to mere philanthropy, thereby highlighting the need for a better appreciation of these matters by the corporate sector, the various stakeholders as well as the government and regulators.

#### **IV. Key Lessons and Way Forward for Indian Companies**

Both market forces as well as regulatory requirements have engendered a more widespread culture of environmental and social reporting both internationally and among Indian companies. Available data indicate that a larger number of Indian companies are now undertaking such reporting, with enhancements in the quality of such reporting as well. However, a number of challenges remain in enabling an environment where meaningful sustainability reporting becomes the norm. The lack of standardisation, overreliance on regulatory mandates and the inarticulateness of the precise audience at which the disclosures are targeted continue to remain some of the top challenges. Nevertheless, it is hoped that the growing investor (and other stakeholder) demand coupled with the ongoing regulatory thrust will impel Indian companies to undertake appropriate environment and social reporting that ultimately leads to more meaningful outcomes.

#### **Box 3: Some Practical Measures**

##### ***By Corporate Boards***

- Need for involvement and commitment from top management on sustainability matters (“tone-at-the-top”).
- Establish appropriate frameworks, process, systems and controls for environmental and social reporting comparable to the quality of financial reporting.
- Seek third party assurance on sustainability reporting so as to enhance creditability of their efforts.

##### ***By Users of the Information***

- Display greater demand through proactive consumption of sustainability information.
- Raising awareness among investors and, in particular, domestic financial institutions.
- Investors to undertake stewardship responsibility while monitoring environmental and social performance of companies.
- Any future regulatory efforts to enable a regime for stewardship must consider sustainability matters and not merely profitability considerations.
- Stock exchanges to take a more proactive role in compelling dissemination of quality information.
- Need for further academic research on the impact of sustainability reporting among Indian companies.

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## Further References

- Priyanka Garg, *Development of sustainability reporting index (SRI) with special reference to companies in India*, (2017) 44(4) Decision 259
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- International Finance Corporation, *Sustainable Investment in India: Issue Brief* (2009), available at <https://www.ifc.org/wps/wcm/connect/9c5b5680488657f0b37af36a6515bb18/Sustainable+Investment+in+India+2009+-+Issue+Brief.pdf?MOD=AJPERES>
- UNEP Finance Initiative, Principles for Responsible Investment & Generation Foundation, *Investor Obligations and Duties in Six Asian Markets*, available at <https://www.unpri.org/download?ac=1393>

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## About NSE CECG

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