Sustainability Reporting

Practices and Trends in India 2012

Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

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Project Partners

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About GIZ

The services delivered by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH draw on a wealth of regional and technical expertise and tried and tested management know-how. As a federal enterprise, we support the German Government in achieving its objectives in the field of international cooperation for sustainable development. We are also engaged in international education work around the globe. GIZ currently operates in more than 130 countries worldwide.

GIZ in India

Germany has been cooperating with India by providing expertise through GIZ for more than 50 years. To address India's priority of sustainable and inclusive growth, GIZ's joint efforts with the partners in India currently focus on the following areas:

- Energy- renewable energy and energy efficiency
- Sustainable Urban and Industrial Development
- Natural Resource Management
- Private Sector Development
- Social Protection
- Financial Systems Development

GRI Focal Point India

The Global Reporting Initiative (GRI) produces a comprehensive Sustainability Reporting Framework that is widely used around the world, to enable greater organizational transparency. GRI Focal Points are national offices that drive GRI activity in particular countries and regions. Since its inception in 2010 GRI Focal Point India provides guidance and support to local organizations, driving GRI's mission to make sustainability reporting standard practice. There are more than 80 companies in India who have prepared CSR/Sustainability report from both public and private sector out of which 60 reports have been published in the public domain. Since the Focal Point was established, the number of reporters in India has increased. The support to the GRI Focal Point India provides Indian corporations a chance to shape emerging sustainability reporting framework, standards and the possible regulatory landscape for sustainability reporting in India.

The GRI Focal Point India operates at the heart of the CSR and sustainability landscape in India. The Focal Point has important strategic collaborations with many important key institutions of the South Asian countries to imbibe sustainability and reporting paradigm such as the government agencies, businesses, industry associations, financial market players and civil-societies from India and South Asia through its outreach, research and advocacy

activities and dialogues. The key objective of the Focal Point in India is mainstreaming of sustainability reporting, enhance and expand the technical features of the GRI Reporting Framework, offer a platform and supporting materials for "Report or Explain why not" and contribute to the development of Integrated Reporting.

Thought Arbitrage Research Institute

Thought Arbitrage Research Institute (www.tari.co.in) is a not for profit organisation set up under Section 25 of the Indian Companies Act.

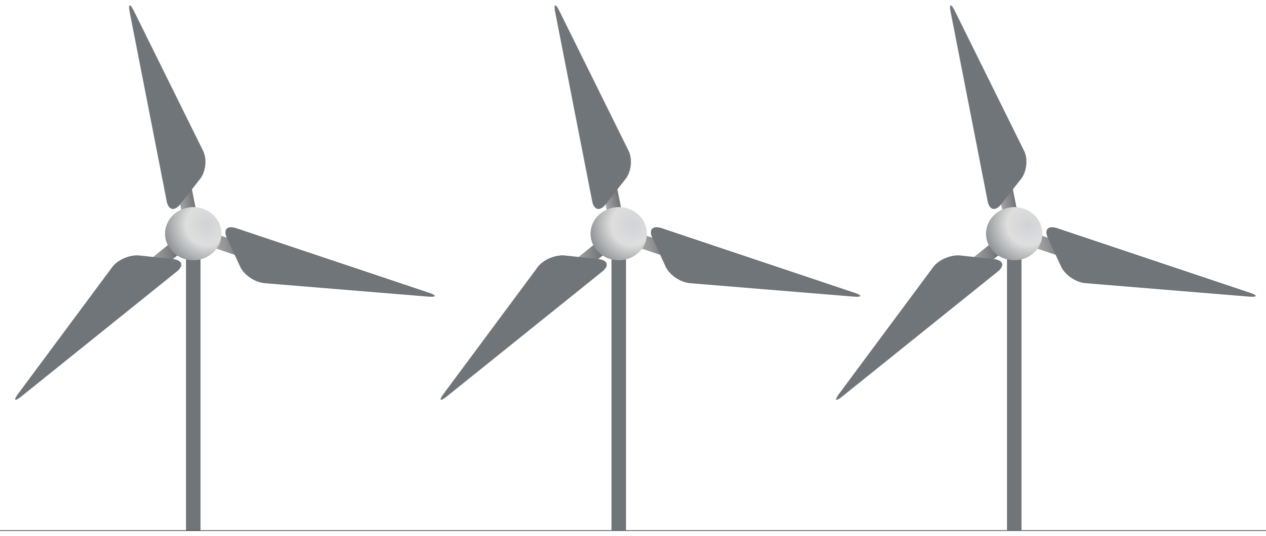
TARI's mandate is to develop intellectual capital for the country in the areas of Corporate Governance, Sustainability, Economics and Public Policy.

In India there is very little privately funded research that puts forth unbiased points of view. TARI attempts to bridge this gap in the area of thought development.

Tomorrow's arbitrage will not be on labour, cost or capital—but on knowledge, ideas and thought. Countries that are at the forefront in these areas will control the course of global economic power. India's ascent to economic power has to be driven by home grown ideas and solutions tailored to Indian conditions. TARI strives to understand and define Indian conditions better through research.

This unique baseline study based on analysis of empirical and quantitative data on sustainability reporting practices among Indian companies gives a credible and rational basis for our findings. We also support our conclusions with interviews and anecdotal evidence. We have applied these principles which are the foundation of our beliefs and practices throughout this report.

TARI is an organisational stakeholder of GRI and has been selected to be GRI's training partner in India.



Foreword

Creating value while mitigating risks why sustainability reporting matters for Indian businesses

Manfred Haebig,
Director Private Sector Development
GIZ India

Changes in the global environment increasingly challenge businesses around the world to look beyond financial performance, and to integrate environmental and social concerns into their strategic management. Companies therefore increasingly move beyond Corporate Social Responsibility as a philanthropic activity, and integrate it into their core business operations. The National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVGs) released by the Indian Ministry of Corporate Affairs in July 2011 highlight the need to integrate sustainability and inclusiveness into core business practice. The nine principles aim to provide a distinctively 'Indian' approach to enable businesses to balance and work through many unique requirements of this country, while being in harmony with international norms and frameworks. While initiatives of the Government of India, such as the National Voluntary Guidelines, show commitment of government towards business responsibility, businesses now need to demonstrate their seriousness in the implementation of the NVGs. Reporting and disclosure is one way for businesses to account for the way they have impacted their economic, social and physical environment.

It is estimated that more than 4000 companies around the world invest time and resources in producing sustainability reports. One reason for this is that external stakeholders, such as institutional investors, are increasingly asking for reporting and disclosure of non-financial performance indicators. India's Standard & Poor's ESG Index of National Stock Exchange is one example, underlining the importance of not only measuring and monitoring performance on environmental, social or corporate governance (ESG) areas, but also of bringing disclosure to the centre of strategic operations. Sustainability reports, however, do not only provide a medium for communicating to investors; increasingly customers are cautious about companies' performance and compare leaders and laggards. A company's environmental, social and economic performance has therefore not only strategic, financial or operational relevance; it also has reputational implications.

A rather recent trend to be observed is that investors and stakeholders are asking companies to report on climate change related risks and opportunities as well as on their climate policy efforts. Globally, firms have started to disclose greenhouse gas (GHG) emissions. Innovative instruments like the recently launched GREENEX at the Bombay Stock Exchange (BSE) in India therefore set the right incentives to strengthen this trend. In association with g-Trade (supported by GIZ, Observer Research Foundation, and IIM Ahmedabad), the BSE has designed the GREENEX to assess energy efficiency performance of companies based on publicly disclosed energy and financial data, and

thereby to encourage investments in economically and environmentally sustainable businesses. Initiatives like those show that financial sector actors are important "multipliers" to promote responsible business behaviour and environmental and social compliance.

Data availability and data quality are key elements for the success of financial instruments like the GREENEX. Reporting and disclosure are therefore of increased importance. The following report aims to close a knowledge gap, and capture the status quo of sustainability reporting in India. Special attention is given to the status of climate reporting in India. This study is part of GIZ's efforts to strengthen market-based instruments to promote responsible business behaviour, and to encourage climate action in the private sector. It is part of an initiative funded by the German Ministry of Economic Cooperation and Development (BMZ) to strengthen climate innovations in the Indian private sector. This study shows that sustainability issues increasingly matter for Indian businesses, from the risk and the opportunity perspective. However, while the study shows that non-financial risk management has reached the strategic management of many companies in India, it also highlights the need for further engagement on the part not only of businesses, but also of the financial sector.

It is estimated that more than 4000 companies around the world invest time and resources in producing sustainability reports.

We are convinced that this study will result in a fruitful dialogue among different stakeholders.

Sincerely,

Manfred Haebig,
Director Private Sector Development
GIZ India

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Executive Summary

Welcome to the Sustainability Reporting Practices and Trends in India 2012 – joint research by the Deutsche GesellschaftfürInternationaleZusammenarbeit (GIZ) India, the Global Reporting Initiative (GRI) Focal Point India, and Thought Arbitrage Research Institute. This study focuses on analysing existing sustainability reporting practices in India across eight key economic sectors: Oil and Gas, Pharmaceuticals, Information Technology (IT), Banking, Metals and Mining, Construction, Power, and Automotive. It also explores the reasons behind reporting, and attempts a root cause analysis to establish factors that impede reporting in India. We have analysed 110 annual reports, 75 sustainability reports and disclosures (either using the GRI Sustainability Reporting Guidelines, in response to the Carbon Disclosure Project (CDP) questionnaire, or aligned to the United Nations Global Compact (UNGC) Principles), and scrutinised 110 websites for accessing information on sustainability parameters. The study examines disclosures and methods deployed to report on sustainability performance cutting across these eight sectors on their environmental, social, economic and governance performance. The study also exposes trends in the process of reporting, such as stakeholder dialogue, senior management involvement, linkage of sustainability performance to business strategy, and the extent of disclosures on performance indicators.

The attempt to understand—and change—the global situation has led to the growth of an important movement within society: people are requesting more information as they attempt to understand the causes of this situation at both local and global levels, and are beginning to discuss solutions. It should also be pointed out that this process is being accelerated by the increasing number of people who have access to communication and information exchange channels. 1.3 billion people have access to the internet and the number is still growing. 41 out of every 100 people have a subscription to a cellular phone. One result of this movement (in combination with other factors) is the growing number and variety of not-for-profit and non-governmental organizations (NGOs) around the world. The number of NGOs has grown dramatically in the last fifteen years. There are community associations for safer neighborhoods and better public schools, for improving women's social conditions, environmentalists, 'track your waste' education, citizens protesting wars or supporting wars, pro transparency and anti-corruption. In the business world there are productive cooperatives, corporate governance institutes, networks of buyers for fair trade products, social and environmental certifications, and consumer rights organizations. In short, citizens from all backgrounds are engaging to change the shape of the world.

Business contexts and business models have changed in the face of these demands from civil society and consumer movements, coupled with other changing business conditions (including around access to natural resources, and introduction of new professional skills). As a consequence, businesses and other organizations have had to adapt their products, services, decision-making processes and management systems accordingly. From the perspective of an organization (whether for-profit or not-for-profit), this situation of

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increasing civil society participation poses several challenges. There is a real and continuing demand for more information about how organizations are dealing with society's current challenges—'demand for transparency'. This demand comes from different actors in society and in the business arena, such as employees, investors (donors), consumers (associates), clients, neighbours, journalists and families, among others, and information about positive and negative impacts is disseminated quickly.

The quantity of issues to be analyzed and managed is increasing and there is a real business opportunity for products and services that are compatible with the common search for solutions. Local demands are increasingly aligned with global issues, but local problems require direct and specific solutions. The topics under discussion and the demands of this movement have not always been the same.

International principles and objectives for sustainable development were agreed at the United Nations Conference on Environment and Development in Rio de Janeiro in 1992. Their implementation was elaborated on at the World Summit on Sustainable Development in Johannesburg in 2002. In June 2012, the United Nations Conference on Sustainable Development (Rio+20) will provide an opportunity to realize these principles and objectives at a time when global sustainability challenges are ever more critical.

In practical terms, how can the world manage the transition to a sustainable economy in the context of sustainable development and poverty eradication? This proposal suggests that a sustainable economy can only be achieved if information on economic, social and environmental performance - the three pillars of sustainable development - is widely available to decision makers, including governments and private sector organizations. If businesses and all other organizations monitor and report data on their sustainability performance, they will have the vital information needed by executives to manage risk and identify sustainability opportunities. This would encourage them to engage with stakeholders, and help financial markets work efficiently, in a shared effort to pave the way to sustainable development worldwide.

This information is also needed to monitor the effectiveness of sustainability policies, and to help in the development of new macro-level metrics such as national Sustainable Development Indicators. By looking beyond traditional GDP, this would enable a more comprehensive measurement of wellbeing, environmental health and the progress made towards a sustainable economy. Thousands of organisations now report their economic, social and environmental performance, showing that sustainability reporting adds value. If sustainable development is to be reached, the time has now come for sustainability reporting to become standard practice.

The Indian economy is the world's eleventh largest by nominal Gross Domestic Product (GDP) and the fourth largest by purchasing power parity. Following market-based economic reforms in 1991, India has become one of the fastest growing economies, and is considered a newly industrialized country; however, it continues to face the challenges of poverty, illiteracy, corruption and inadequate public health. The economic growth over the last few decades has brought with it social and environmental pressures, as well as the need to raise standards in terms of corporate governance.

When India attained independence from British rule in 1947, the country possessed sophisticated laws regarding "listing, trading, and settlements" which included environmental and social aspects.

With all this in the background, the development of corporate governance standards is maturing. India's business and investment communities are beginning to recognize the benefits of sustainability reporting and organizational transparency. This is for example shown by the Securities and Exchange Board of India (SEBI) mandate from November 2011, that the 100 largest listed entities must submit Business Responsibility Reports, as a part of their annual reports. This happened as a cascading effect of the launch of the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business on 8 July 2011 by the Ministry of Corporate Affairs, Government of India.

The Guidelines provide a robust framework that may be adopted voluntarily by companies to address interests of various stakeholders, including employees, customers and investors. Other recent developments include the Sustainable Development and Corporate Social Responsibility Guidelines for Central Public Sector Undertakings (CPSEs) are a part of the each CPSEs yearly target with their commitment to implement them along with their financial and business targets. Also, the Companies Bill 2011, to include in the Board's Report a CSR Policy and to spend 2 percent of average net profit of the last three years on CSR activities, had been setting a clear forward movement on the agenda.

India's business and investment communities are beginning to recognize the benefits of sustainability reporting and organizational transparency.

With reporting on sustainability still voluntary in nature, companies have a choice of disclosure mechanisms, and this choice is determined by the preparedness of the organization as well as an analysis of the sustainability risk. A growing number of companies and mining, oil and gas, power, construction and the automotive sectors are among the leading adopters of sustainability reporting.

There are around 80 Indian companies from various sectors that have been reporting, and there are about 60 companies who publicly declare that they follow the GRI Guidelines on almost all aspects of reporting environment, social and governance performance, although the rigour and details vary. This research focused on eight key sectors of India, showing that the metals and mining, oil and gas and construction sectors are leading adopters of sustainability reporting practice in India. There are also disclosures on the integration of sustainable practices with operations, though they are yet to mature. Unfortunately, the pharmaceutical, power and financial services sectors are still to take on reporting on a large scale.

The concept of integrated reporting, which has been evolving over the last year, underlines the importance of demonstrating interdependence between strategy, governance, operations and financial and non-financial performance.

The content of sustainability reports show that Indian companies have been reporting on several aspects of environment and social performances following the GRI Guidelines, and also in line with Indian legislative requirements on aspects of GHG emissions, energy consumption, labour practices, employee safety and training opportunities. However, information on impact on biodiversity seems to be lacking generally. Many of the reports have now moved on to disclosing time bound targets on environmental aspects.

Climate change is identified as a source of business opportunities rather than a risk. Indian companies find value in adopting environmentally friendly processes and business practices, which is expected to ultimately lead to more efficient processes. The concept of integrated reporting, which has been evolving over the last year, underlines the importance of demonstrating interdependence between strategy, governance, operations and financial and non-financial performance[1].

With an increase in sustainability reporting as well as efforts to develop and refine the practise of integrated reporting globally, organisations' abilities to create value will undergo changes. The annual reports of companies that do not have separate sustainability reports reveal that concern for employees and their welfare is important to most companies. Environmentally friendly initiatives are also part of the Director's report. Companies do not normally make a distinction between corporate philanthropy and CSR activities in their disclosures. Sustainability disclosures in annual reports are not rigorous and cannot, therefore, be audited for performance efficacy and impact. On the other hand, many companies that prepare separate sustainability reports rarely link them with their annual reports and risk analysis. A lack of integration between these reports can hamper the quality of communication of the value propositions that a company undertakes through its sustainability initiatives. However, integrated reports in an experimental manner are still coming into the public domain.

Environmental and social impact assessments and measurement of the return on sustainability initiatives are presently in a nascent stage, which affects the quality of sustainability reporting. Most sustainability reports lack information on impact indicators in the GRI Guidelines. Stakeholder demands and expectations on impact based indicators could push the agenda within businesses to report on them too.

The interaction we undertook with Indian companies to supplement secondary information available in the public domain and to acquire a sense of the 'mind of the management' revealed that companies need more information and assistance in developing their strategy for sustainability. With many companies relying on experts from outside, they perceive a bottleneck in the integration of sustainability issues with business decisions and operations. Companies also find it difficult to justify investments in sustainability initiatives, as the returns are not immediate. This sometimes leads to the dilution of management focus and resource allocation. The need, therefore, is to establish a robust interdisciplinary departmental core group who would first understand the sustainability context in their own business strategy, and then contribute to sustainability strategy formulation and reporting. These challenges not only affect the quality of the report but also make the task of preparing it tedious and time-consuming. Indian corporations can learn from other foreign corporates that have established sustainability taskforces consisting of members of different departments throughout the organization (such as HR, communications, investor relations). Also the five smart steps of the reporting process as provided by GRI Guidelines as Prepare, Connect, 'Define, monitor, report' is almost always not followed by businesses, making the sustainability reporting process often a cumbersome activity with heavy financial burden and dependency on external consultants. Capacity building on reporting process needed in India.

Involvement and ownership by top management—the management structure that formulates strategies and runs the operations of the company—is a critical part of the sustainability process, given their ability to effect changes and to develop a long-term vision and goals for the organisation. Most companies do not disclose targets and associated investments on their most material aspects of business operations and policies, making evaluation and monitoring of progress by top management a non-accountable process.

The need to engage with stakeholders and partners in the value chain and the community is being slowly established, and companies are taking small steps reaching out to them for inputs to their strategy. However, the effective integration and outcomes of these inputs is not evident, as key processes like the clear allocation of responsibility for follow-up action, establishment of linkages between stakeholder inputs and business risks, do not feature prominently in discussions and sustainability disclosures. Businesses also miss out on the opportunity of identifying material issues through constructive dialogue with stakeholders, and rather depend on their internal understanding on materiality, often

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defeating the essence of principle of materiality as mentioned in the GRI Guidelines. Reports also tend to become voluminous rather than the desired material aspects meeting stakeholder expectation needs.

Reporting as well as non-reporting companies have accepted that sustainability reporting may become mandatory in the future across all publicly-traded enterprises. However, there are still several challenges that companies need to overcome before a suitable reporting mechanism aligning the global frameworks and the National Guidelines need to be worked out soon. Further, activism is likely to add extra pressure on companies to make disclosures on sustainability performance indicators a mainstream practice.

Sustainability reporting is expected to rise in the coming years resulting from the regulatory impetus and a reinforced belief among Indian businesses that sustainability is integral to business, society and the world we live in.

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1 http://theiirc.org/wp-content/uploads/2011/09/IR-Discussion-Paper-2011_spreads.pdf

"For an organisation or community to be sustainable (a long-run perspective), it must be financially secured (as evidenced through such measures as profitability), it must minimise (or ideally eliminate) its negative environmental impact, and it must act in conformity with society's expectations"

(Deegan, 1999)

Chapter 1

Introduction

'Earth provides enough to satisfy every man's need, but not every man's greed'

– Mahatma Gandhi

Evolution of the Concept of Sustainability

In 1919, in a landmark judgment in the case of Dodge v. Ford Motor Company, the Supreme Court of the State of Michigan, USA, held that the primary objective of a business is to make profits, and that any business is responsible to its shareholders and not to the community as a whole nor to its employees. To date, this judgment is treated as a fundamental reference point in relation to the responsibilities of a business and the inherent principle in it has not been overruled by courts.

In 1970, Nobel Laureate Milton Friedman wrote that the responsibility of a business is to increase profits and that engaging in activities which discharge the corporate social responsibilities (CSRs) of a business is an instance of 'agency conflict' or a conflict between managers and shareholders. In Friedman's view, CSR activities were undertaken by managers for their personal needs and at the expense of the shareholders, and he even went on to say that in a free enterprise society, CSR reflects an inappropriate use of corporate funds.

Since the early 1980s, social scientists have moved away from the theory of agency as propagated by Friedman and gravitated towards a new model developed by Peston and Caroll, which was embodied in a structure they called the 'corporate social performance' (CSP) framework, which combines the principles and philosophy of societal needs with the economic responsibilities of a business.

Freeman brought in the concept of stakeholders in 1984, which he defined as '…any group or individual who can affect or is affected by the achievements of an organisation's objectives'. The stakeholder theory asserts that firms have relationships with many constituent groups and that these stakeholders both affect and are affected by the actions of the firm. Freeman (1984)[2] argued that systematic attention to stakeholder interest is critical to the success of a firm and that management must pursue actions that are optimal for a broad class of stakeholders rather than those that serve only to maximise shareholder interests[3].

These principles set the path for more research and understanding of these theories, and led to the integration of the environmental, social and governance responsibilities of a business with the otherwise predominant economic aspects. The stakeholder concept has facilitated the inclusion of the sustainability concepts in the core business practices of a company.

The concepts of sustainability and stakeholder inclusion have been motivated by the belief that adopting sustainability practices in the long run would lead to the improved financial performance of the firm[4,5], increased competitive advantage[6], profit maximisation and the long-term success of the firm[7,1].

What is Sustainability Reporting?

Sustainability means different things to different people; therefore, a universal definition of sustainability is elusive. The most often quoted definition is from the Brundtland Commission (1987)[8], which states that sustainable development is "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Sustainability is, therefore, more of a journey than a destination wherein ideals, values and measurement metrics are in a constant state of evolution.

The quest for sustainable development started with environmental concerns, and climate change has now become one of the biggest developmental challenges. As the Brundtland Commission had discovered through stakeholder interaction, no single environmental issue can be seen in isolation. Given the economic impact of climate change, it is a major governance issue[9].

The 'Triple Bottom Line' (TBL), a term coined by Elkington (1997)[10], implies that corporations should focus "not just on the economic value they add, but also on the environmental and social value they add – and destroy". The idea inherent in the TBL is rooted in the concept and goal of sustainable development, which was defined by the Brundtland Commission. As Deegan (1999)[11] indicated, "for an organisation or community to be sustainable (a long-run perspective), it must be financially secured (as evidenced through such measures as profitability), it must minimise (or ideally eliminate)

its negative environmental impact, and it must act in conformity with society's expectations", that is, it is inadequate to measure and present only economic performance, which is the focus of the intellectual capital (IC) research. In order to sustain themselves in the long run, organisations must, therefore, strive to achieve better performance across the three dimensions of the Triple Bottom Line[12].

Harvard professors Michael Porter and Mark Kramer[13] state: "Businesses and society have been pitted against each other for too long and this is because companies have excluded environmental and societal considerations from their economic thinking". The concept of shared value as outlined by them focuses on relationship between economic and societal progress with a key focus to increase the total value proposition of a company and the mechanism of equitable sharing of such value amongst stakeholders. This is a paradigm shift from the current principle of allocation of resources to ESG to a framework of sharing value based on equity. This has the potential to shape the trajectory of growth and redefine criteria for decisions and measurement of successes.

This new dimension to the role of the corporate sector, wherein organisations are not only managing scarce resources, but are also responsible for the impact of their operations on society and the environment, requires a strategic commitment to mitigation of hardships/challenges, renewal of resources and promotion of responsible consumption. The maintenance of a balance between such cause and effect is influenced by the manner in which the business is governed. Therefore, sustainability encompasses the three dimensions of Environment, Social Criteria and Governance, known as the 'ESG parameters'. This ensures long term sustenance and continuance of responsible businesses.

There are compelling arguments both for and against the contention that sustainable businesses are competitive. However, only measuring, disclosing and reporting information and initiatives on sustainability will conclusively settle the open question of whether businesses practising sustainability are indeed sustainable.

> 'What you can't measure, you cannot manage. What you can't manage, you cannot change'.
>
> – Peter Drucker, Writer, professor and management consultant

In a globalised economy, investors are increasingly accessing data on sustainability to facilitate decision-making. Disclosures on the non-financial parameters offer a holistic view of a company's performance, and helps create greater shareholder value. The recent global economic crisis and meltdown have, however, lowered the confidence of people in businesses all over the world and consequently given rise to the need to rebuild trust and confidence, and renew the unwritten contract between citizens and businesses. One of the ways of achieving this is by disclosing the risks and opportunities, both financial and non-financial, being faced by the organisation.

Sustainability reporting is therefore a vital step for managing change towards a sustainable global economy—one that combines long-term profitability with social justice and environmental care. Studies have shown, among other things, that the development of this movement can be divided into three phases.

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During the first phase, up until the end of the 1970s, the spotlight was on governments; this phase also saw the creation of the first large international NGOs. The focus was on gathering data and verifying the limits of the then-current general development model.

In the 1960s and 1970s, pioneers in the civil society movement launched international organizations such as Amnesty International, World Wildlife Fund (WWF), Friends of the Earth and Greenpeace, which also had some national counterparts.

In the 1980s and 1990s, the second phase, the link between environmental and social issues was established and the spotlight shifted to the business world. The search began for a 'sustainable development model' which would take into account economic, environmental and social aspects. A new generation of NGOs developed in response to large-scale environmental disasters, burgeoning political movements, and international reports on the state of the environment and society. This movement brought transparency and ethics into the discussion; defended the need for local, regional, and international alliances of diverse actors to address problems; revealed the power of consumers to pressure for change; and initiated a discussion about a new model of development—'sustainable development'—in which environmental, social, and economic issues are taken into account. The business community was also recognized as a fundamental part of the solution.

It was in this context that the Global Reporting Initiative (GRI) was founded in 1997 as a project under Ceres, a Boston (US) based national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges such as global climate change. In 2002 GRI became an independent international NGO and its secretariat has since been located in Amsterdam, The Netherlands. Its main role was to set up a multi-stakeholder process to define guidance to organizations on what issues they should measure and report on.

During this second phase, the movement for measuring the scale of impacts, for common goals and transparency was initiated. A large number of Corporate Social Responsibility and similar organizations were founded all around the world during this phase.

Also in these two decades the needs of consumers changed, opening up new business opportunities. A wave of regional, national and international requirements for labeling and certification, directed at production centers, shops and supermarkets, led to the foundation of international and national quality control institutes. Labeling aimed to provide buyers with information on the quality of the production process, but could also cover different social, economic and environmental aspects, such as "Fair Trade" or "Forest Stewardship Council" labels.

The 1990s saw the advent of the first 'environmentally and socially responsible products', which had come to stay.

The third phase, which began around 2000 and continues today, has seen the regional, national and international agenda change yet again. There is now a clear understanding that the problems are widespread and global, and businesses of all sizes and types need to be involved in their solution. 'Governance'—the processes through which decisions are taken—has been put on the agenda.

"Think globally/act locally" seems to be the guiding sentiment of the civil society movement after 2000, which has been driven by forces such as terrorism, war, extreme poverty, carbon emissions and climate change, as well as many other human rights issues. Another important factor is the internet landscape and growing web of virtual connections, as internet connections become faster and easier.

A new wave of products and services were launched in this third phase: hybrid cars, bio-diesel, energy-saving light bulbs, clean energy, fresh and processed organic food, fair trade clothes, ethical diamonds, certified fish, certified meat, certified eggs, credit cards for social and environmental causes, responsible investment funds, pre- and post- recycled products, etc. It should perhaps be pointed out that topics tend not to disappear from the agenda as new topics are added to it—most are still there and still await a solution.

A key development that brought reporting on ESG parameters to prominence in India was the launch of Standard & Poor's (S&P) ESG India Index in 2008. This is the first index of companies in India that measures and ranks 50 National Stock Exchange (NSE) listed companies on their ESG performance. The initiative, launched in 2008, was sponsored by the International Finance Corporation and executed by the Credit Rating Information

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Services of India Limited (CRISIL) and KLD Research & Analytics. It is the first index in India comprised of companies whose business strategies, performance and investment decisions demonstrate their commitment towards ESG obligations . Fifty of the 500 largest companies listed on the NSE (that meet certain ESG criteria) are a part of the index. The recent launch of the new index called 'BSE-GREENEX' measuring the performance of companies in terms of carbon emissions by the Bombay Stock Exchange, supported by GIZ. This index is expected to assist investors in their decision making based on the carbon efficiency of stocks according to purely quantitative performance based criteria.

The use of the GRI Guidelines and other guidelines by larger Indian corporates is steadily increasing as evident from the number of GRI reports, respondents to CDP and signatories to UNGC. There are legal frameworks of the Indian government which is promoting greater transparent disclosures of ESG parameters and new laws and regulations are being drafted to make such reporting mandatory for businesses[14]. However, currently the reporting and disclosure of these practices and their impact on a company's efficiency and valuations are still in their infancy.

About this Study

The goal of this study is to establish a baseline against which the adoption of reporting in India can be monitored. Indian companies have been reporting on sustainability parameters as a distinct section for about ten years now. However, the overall reporting initiatives have been sporadic and incomprehensive. It has been only over the past five years that a growing number of companies have been preparing separate sustainability reports in the backdrop of coordinated efforts made by the Indian government in its policy and legislative framework, coupled with initiatives of the industry and investors in this sphere.

This study focuses on analysing the existing sustainability reporting practices in India. It also explores the reasons and attempts a root cause analysis to establish factors that impede reporting in India. 110 annual reports, 75 sustainability reports and disclosures are analysed (either using the GRI Sustainability Reporting Guidelines, in response to the Carbon Disclosure Project (CDP) questionnaire, or aligned to United Nations Global Compact (UNGC) Principles), and scrutinised 110 websites for accessing information on sustainability parameters. The study examines disclosures and measures deployed to record sustainability reporting practices by Indian companies across eight sectors: Oil and Gas, Pharmaceuticals, Information Technology (IT), Banking, Metals and Mining, Construction, Power, and Automotive. The secondary information available in the public

Climate change, identified as a key development issue, is extremely relevant to India, where the change in precipitation patterns, floods and droughts are traditional risks.

domain was also supplemented by data on organisational processes, involvement of top management and stakeholder engagement in business sustainability initiatives, which was collected through interaction with Indian companies.

Earth's climate is a fundamental part of our life support system. It shapes the way we can live on this planet. Yet the way we live, work and play is inadvertently changing the climate. Climate change, identified as a key development issue, is extremely relevant to India, where the change in precipitation patterns, floods and droughts are traditional risks. Moreover India is home to a third of the world's poor, and climate change will hit this section of society the hardest. India currently has one of the fastest growing economies in the world. With a government target of 8% GDP to achieve developmental priorities, a share of one sixth of the global population, and changing consumption patterns, India's emissions are set to increase dramatically. The study also evaluates how Indian companies integrate the risk of climate change in their strategy and assesses the impact of this risk on their operations across the value chain.

In view of the ambit of the issues covered, this study is thus expected to establish a reference against which reporting efforts can be compared.

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2 Freeman, R. Edward (1984), *Strategic Management: A Stakeholder Approach*, Boston Pitman USBN 0273019139.

3 Gelb, D. and Strawser, J. (2001), "Corporate Social Responsibility and Financial Disclosures: An Alternative Explanation for Increased Disclosure", *Journal of Business Ethics*, Vol. 33, No. 1, pp. 1-13.

4 McWilliams, A. and Siegel, D. (2001), "Corporate Social Responsibility: A Theory of the Firm Perspective", *Academy of Management Review*, Vol. 1, No. 26, pp. 117-27.

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6 Russo, Michael V. and Fouts, Paul A. (1997), "A Resource-based Perspective on Corporate Environmental Performance and Profitability", *Academy of Management Journal*, Vol. 40, No. 3, pp. 534-59.

7 Finch, Nigel (2005), Sustainability Reporting Frameworks, Available at SSRN http://ssrn.com/abstract=902783.

8 http://www.earthsummit2012.org/historical-documents/the-brundtland-report-our-common-future

9 http://www.undp.org.in/content/pub/ClimateChange/UNDP_Climate_Change.pdf)

10 Elkington, J. (1997), Cannibals with Forks: The Triple Bottom Line of 21st Century Business", Oxford, Capstone.

11 Deegan, C. (1999), "Triple Bottom Line Reporting: A New Reporting Approach for the Sustainable Organisation", Charter, April, Vol. 70, pp. 38-40

12 Finch, Nigel, (2005), "The Motivations for Adopting Sustainability Disclosure", MGSM Working Paper No. 2005-17, August, Available at SSRN: http://ssrn.com/abstract=798724

13 Kramer, Mark R. and Michael Porter (2011), "Creating Shared Value", Harvard Business Review

14 Refer to annexure 1 on policy and legislations in the report.

India is acknowledged as one of the fastest growing economies in the world; as a corollary, it faces the twin challenges of balancing consumption to fuel its rapid growth with the equitable conservation of its key resources and the impact of striking this balance on the society.

Chapter 2

Indian Policies and Legislative Environment

The Government of India is committed to addressing climate change and sustainability concerns in the backdrop of India's rapidly increasing development needs. Sustainable business practices are seen as one of the key contributors in balancing these divergent and competing dimensions.

An equitable and evolved market and regulatory mechanism helps reflect these concerns and risks in an entity's business practices and disclose its effect on the environment, society and governance. This section summarises the evolution of landmark policies and regulatory initiatives aimed at promoting the adoption and implementation of sustainable business practices and reporting in India.

India is acknowledged as one of the fastest growing economies in the world; as a corollary, it faces the twin challenges of balancing consumption to fuel its rapid growth with the equitable conservation of its key resources and the impact of striking this balance on the society. The burden of sharing negative impact is a sensitive issue globally, requiring the careful consideration of economies and regional forces while delicately balancing the need for development to ensure the welfare of its people.

Over the years there has been an increasing recognition that Environmental, Social and Governance (ESG) factors contribute to the long term sustainability of a company and favourable financial returns. This section traces the key policy and legislative initiatives in India related to ESG aspects which have made businesses more conscious of their performance and laid foundations for a strategic approach to addressing sustainability issues including disclosures.

Government Initiatives on Climate Change Issues

With increasing importance of India as a global economy and its role at crucial international forums dealing with economic and climate change issues, the Finance Ministry decided in 2011 to expand the scope of the annual Economic Survey[15] to include a chapter on the topic of financing of climate change. The survey discusses the effect of climate change in India, the governmental initiatives, financing and overall strategy.

India has many publicly-funded programmes for the prevention and control of climate risks and issues relating to sustainable development. One of the major objectives of many rural development and poverty upliftment programmes is the reduction of vulnerability to risks arising out of climate change.[16]

Banks have been assigned a special role in the economic development of the country, and the Reserve Bank of India, the banking regulator, has prescribed that certain percentage of bank lending should be allocated to developmental sector called the 'Priority Sector'[17]. In addition, banks have begun to realise their role as 'multipliers' for responsible and sustainable business as they increasingly integrate evaluation on sustainability as one of the key inputs to their decision on financing and valuation of projects. Similarly, the Charter on "Corporate Responsibility for Environmental Protection (CREP)" from Ministry of Environment & Forest (MoEF) looks beyond the compliance of regulatory norms for prevention & control of pollution through various measures including waste minimization, in-plant process control & adoption of clean technologies. The Charter set targets concerning conservation of water, energy, recovery of chemicals, reduction in pollution, elimination of toxic pollutants, process & management of residues that are required to be disposed of in an environmentally sound manner, listing action points for pollution control for various categories of highly polluting industries.

Financial reporting in India includes mandatory reporting on environment and social matters such as on consumption of energy, use of raw materials and intermediaries, conservation efforts, accounting for environment costs, and disclosures on liability for environment issues. Labour and industrial laws are also well established and companies are required to report on matters such as salaries, wages and benefits paid to employees and the status of payment towards retirement and social benefits.

Financial reporting in India includes mandatory reporting on environment and social matters such as on consumption of energy, use of raw materials and intermediaries, conservation efforts, accounting for environment costs, and disclosures on liability for environment issues.

Corporate Governance

India's Securities and Exchange Board of India (SEBI) Committee on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company." The Indian approach is drawn from the Gandhian principle of trusteeship and the Directive Principles of the Indian Constitution. Corporate governance in India gained prominence in the wake of liberalisation in the early 1990s through the voluntary adoption of corporate governance norms by some private sector companies, particularly technology companies. These companies were market makers at Indian stock exchanges as they were perceived to be well-governed. Corporate governance is one area wherein legislation or regulations have followed market-led initiatives and to that extent, it is the reflection of a demand-based regulatory response.

Corporate governance guidelines started as part of a process of voluntary adoption, which was spearheaded by a major industry association and later became mandatory in a series of regulations with progressive degrees of improvement. The prevalent regulation driving corporate governance in Indian companies is the listing agreement with stock exchanges known as Clause 49. It comprises a set of mandatory and recommendatory guidelines that help align companies with global standards in terms of several elements of governance such as issues concerned with directors, management, financial information and shareholders. Significantly, Clause 49 also places on the Board agenda several aspects of sustainability reporting such as material effluents or pollution problems, industrial relations including wage agreements, and material public or product liability claims besides financial or economic information.

Recent initiatives of the Ministry of Corporate Affairs and Department of Public Enterprises pertaining to the release of sustainability guidelines are aligned to the national priority of sustainable development and are expected to help companies aggregate information on sustainability issues in one document. These voluntary guidelines would also assist companies in establishing sustainable business practices. Appropriate support from the Government policy regime is expected to encourage a systemic movement towards sustainability reporting and responsible business.

The guidelines which are relevant to Indian businesses include:

National Voluntary Guidelines

The Ministry of Corporate Affairs released Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) in July 2011 after considerable stakeholder consultations. They are compatible with globally acceptable guidelines on sustainability reporting. The GRI Focal Point India and the GIZ India have supported and promoted the creation of the NVG through the IICA-GIZ CSR Initiative.

NVGs are principle-based and encourage companies to report under the Triple Bottom Line (TBL). They also address the need to include small and medium enterprises, and the need for companies to have management systems and processes as responsible business enterprises, while laying down the basic requirements for businesses to function responsibly, thereby ensuring a wholesome and inclusive process of economic growth.

A separate chapter on reporting has been included in the NVGs so that business entities are able to not only adopt the NVG's but also to demonstrate the adoption of the latter to their stakeholders through credible reporting and disclosures. The reporting framework is designed in accordance with the 'Report-or-Explain' principle, i.e. companies should report on their sustainability performance or if they do not explain why that is. The suggested framework takes into account the requirements of business entities that are already reporting according to other recognised frameworks as well as those which do not as yet have the capacity to undertake full reporting.

Guidelines on Corporate Social Responsibility and Sustainable Development

Recent developments include the Sustainable Development and Corporate Social Responsibility Guidelines for Central Public Sector Undertakings (CPSEs) are a part of the each CPSEs yearly target with their commitment to implement them along with their financial and business targets

These were issued by the Department of Public Enterprises (DPE), and stipulate how much and how Central Public Sector Enterprises (CPSEs) should invest and report on Corporate Social Responsibility (CSR). The CSR budget mandated ranges from 0.5 per cent to 5 per cent of the profit depending on the net profit of the CPSE.

A recent decision taken by the Securities and Exchange Board of India (SEBI) mandates that listed entities should submit Business Responsibility reports as a part of their annual reports, which would describe measures taken by them along the key principles enunciated in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' (NVGs) framed by the Ministry of Corporate Affairs (MCA).

To start with, this requirement would be applicable to the top 100 companies in terms of market capitalisation and would be extended to other companies in a phased manner. This decision indicates the importance that the Government of India places on the fulfilment of environmental, social and governance responsibilities of businesses.

While companies face challenges in making operational changes, the business case and linkages of the voluntary guidelines with existing legislations, prepared by the Indian Institute of Corporate Affairs (IICA), offer a comprehensive justification, businesses need an alignment with existing and commonly accepted global framework such as GRI Guidelines for sustainability reporting too.

The new Company's Bill tabled in the Parliament in December 2011 is a key step towards strengthening corporate governance and business sustainability measures. The new Bill

has certain key provisions like the power to initiate class action suits to protect minority shareholders, stringent punishment for insider trading, rotation of company auditors, rules on fixed tenure and accountability of independent directors, and constraints on managerial remuneration.

These proposed rules suggest that every company with a net worth exceeding Rs. 5 billion or a turnover exceeding Rs. 10 billion or profits exceeding Rs. 50 million should form a committee of three or more directors, including at least one independent director, to recommend activities for discharging corporate social responsibilities in such a manner that the company would spend at least 2 per cent of its average profits of the previous three years on CSR. The company is also required to disclose its activities in its report or on its website, and to institute a formal policy on CSR.

Policy Imperative for Sustainable Business

- Developmental concerns and economic growth require a delicate balancing act with long term sustainability concerns.
- The Government of India is addressing this challenge through a slew of policy and legislative changes both proposed and in the process of implementation.
- There is a special focus on the corporate sector and its contribution to the sustainable development agenda of the nation.
- There is increasing policy focus on sustainability reporting and disclosure.

15 Ministry of Finance presents a survey to the Parliament before presentation of the Union budget capturing economic development of the country for the year., It is prepared by the Department of Economic Affairs and approved by the Ministry of Finance.

16 United Nations Development Programme, India Lasting Solutions for Development Challenges, 2009

17 Government of India identified certain sectors as priority sectors such as agriculture, artisans, village and cottage industries, Self Help Groups, SSIs, Micro enterprises, export units etc.

Figure 1: *Policy and Legislative Initiatives*

Chapter 3

Trends in Sustainability Reporting in India

This section analyses how Indian companies have adopted sustainability reporting frameworks and principles.

Indian companies have been reporting on sustainability since 2001 by using the GRI Framework, following the Carbon Disclosure Project (CDP) or completing the UN Global Compact's Communication of Progress (CoP). The process of evolution for most companies has been to initiate the reporting process under the CDP or the UNGC CoP, and later progress into reporting under the GRI Framework, which is based on both principles and standard disclosures, including performance indicators. However, a small number of companies report under all the three reporting norms. The number of companies reporting on sustainability has been increasing but is still relatively small as compared to the total number of companies that are publicly traded in India.

Adoption of GRI Sustainability Reporting in India

The GRI Sustainability Reporting Framework provides guidance on how organisations can disclose their sustainability performance. The Reporting Framework sets out principles and standard disclosure items, including performance indicators that organisations can use to measure and report their economic, environmental, and social performance. It is hitherto the most comprehensive framework covering specific performance indicators on ESG issues.

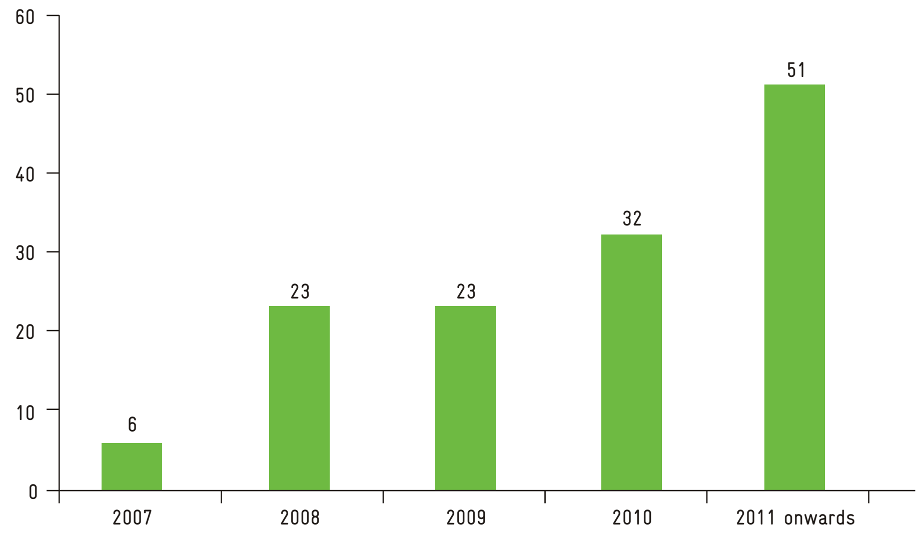


Figure 2: Adoption of GRI Guidelines by Indian Companies and MNCs having Indian operations
(Source: Estimates provided by GRI India Focal Point)

The first version of the GRI Guidelines was issued in 2000. A second generation of the Guidelines, known as G2, was unveiled in 2002 at the World Summit on Sustainable Development in Johannesburg. Some Indian companies started reporting on the G2 framework from the year it was launched in 2002. Since then, the number of reporting companies has increased steadily over the years.

GRI launched the third generation of its Guidelines, G3, in 2006 and Indian companies transitioned to the G3 Guidelines in 2007; all reports since 2009 are based on the G3 Guidelines. In a recent analysis by GRI, it has been observed that Indian companies are producing the highest proportion of complete reports globally, implying the disclosure of a complete set of information that is relevant to the reporting organisation and external assurance[18]. In March 2011 GRI published the G3.1 Guidelines – an update and completion of G3, with expanded guidance on reporting gender, community and human rights-related performance – and Indian companies are adapting to these new changes in the Reporting Framework. There are around 80 Indian companies from various sectors that have been reporting and there are about 60 companies that publicly declare that they use the GRI Guidelines, although only 51 sustainability reports are registered on the GRI database. Most of these reports disclose information on almost all aspects of performance indicators ranging from environment, social and governance, although the rigour and details vary. This research focussed on eight key sectors of India, we observed that metals and mining, oil and gas and construction sector are leading adopters of sustainability reporting practice.

Responses to the Carbon Disclosure Project from India

The Carbon Disclosure Project (CDP) is an independent not-for-profit organisation registered in England and holds the largest database of primary information on corporate climate change in the world. Organisations from major economies across the world measure and disclose their greenhouse gas (GHG) emissions, water use and climate change strategies through CDP.

An annual questionnaire from CDP is sent inviting disclosures on GHG emissions and climate change parameters to select companies based on their market capitalisation in the chosen countries and the relevant information on climate change is put out for increasing transparency in areas of climate related investment and other risks.

These disclosures can be made public or can be restricted to only CDP signatories. Since 2006, CDP has been inviting top NSE-listed companies to respond to their questionnaire. It started with a request to 110 companies in the first year and then expanded the sample to NSE 200 from 2007 onwards.

- The number of companies responding has increased over the years.
- Companies have now started responding to not just those issues related to investors but also supply chain-related questionnaires.

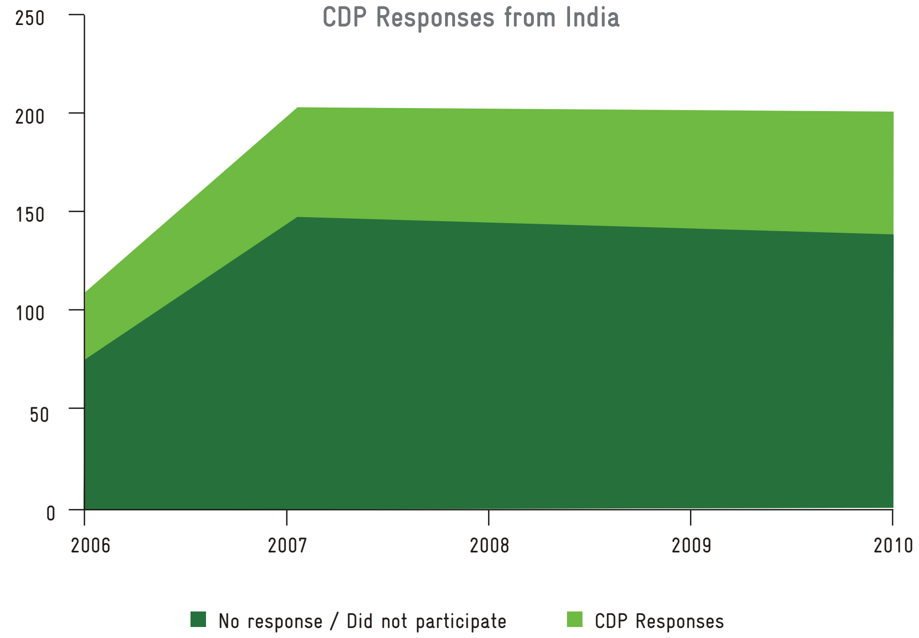


Figure 3: CDP Responses from Indian Companies
(Source: Analysis based on information in CDP India reports on their website)

UN Global Compact and CoP Filing

The United Nations Global Compact (UNGC) has issued ten principles in the areas of human rights, labour, environment and anti-corruption, which enjoy universal consensus, and it asks companies to embrace, support and enact, within their sphere of influence, a set of core values in these areas. It requires explicit commitments from participant companies to produce an annual public Communication on Progress (CoP).

A CoP is a public communication to stakeholders (consumers, employees, organised labour, shareholders, media, government, etc.) on the progress that the company has made in implementing the ten principles in their business activities and, where appropriate, in supporting broader UN goals through partnerships.

The purpose of the CoP requirement is to ensure the commitment of Global Compact participants and to create a rich repository of corporate practices that serves as a basis for continuous performance improvement. This is an annual statement shared publicly with stakeholders. The UN Global Compact has signatories not only from the industry and corporate sector, but also not-for-profit and educational institutions. Global Compact Network (GCN) India was established in 2003 as a non-profit society and functions as the Indian local network of the Global Compact Programme. It should be noted that GCN India does not mandate any disclosures or reporting.

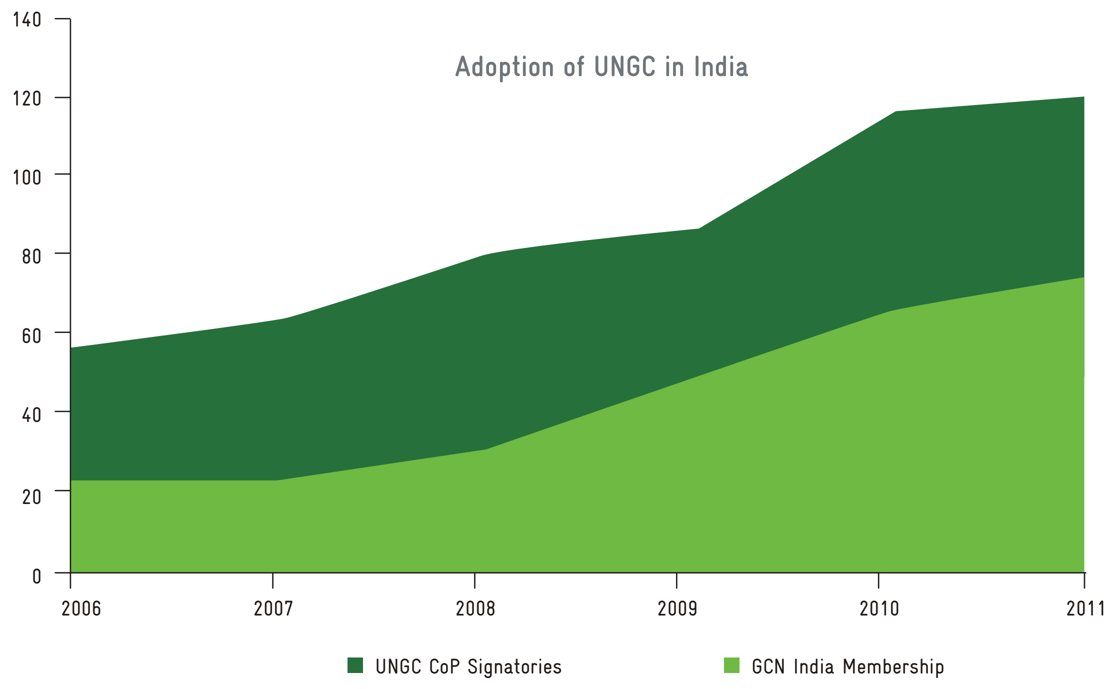


Figure 4: Extent of Adoption of UNGC by Indian Companies since 2006
(Source: Analysis based on information in UNGC and GCN India website)

UNGC has a principles-based disclosure requirement with a leadership expression of commitment. There is a significant overlap of the UNGC and the NVGs in terms of principles and emphasis on the statements pertaining to top management involvement. Figure 4 indicates the extent of adoption of UNGC in India since 2006.

Following are the salient features of adoption of UNGC in India:

- The number of UNGC signatories from India has increased steadily over the last six years, more than doubling in six years.

- The Communication of Progress (CoP) filed by Indian companies has also more than doubled during the corresponding period.

- Membership to GCN India shows a steady increase mirroring the trend of CoP filing by Indian companies.

- There are some Indian companies that are filing the CoP, however, are not members of GCN India.

Integrity of Data in Sustainability Reports

A recent study by University of Leeds and Euromed Management School, France based on an analysis of over 4000 CSR reports, concluded that the reports have been fraught with "irrelevant data, unsubstantiated claims, and gaps in data and inaccurate data"[19] and suggests that missing rigour and voluntary actions results in lower public trust in such reports.

Unlike financial reporting, the disclosure of sustainability metrics to the market is largely unregulated and predominately voluntary. However, as sustainability becomes a critical factor in a business environment, it would become important for companies to build a framework for these processes, information systems and controls that match the quality and focus observed in financial reporting.

A third party assurance ensures quality and consistency of disclosures. It involves verification, which is an independent, documented and systematic process of scrutinizing data, its associated processes and methods for collection and its management, which leads to an assurance statement. This indicates the reliability of disclosures and demonstrates credibility of the organization to its stakeholders.

Arising out of the need for verified data, the Carbon disclosure project has recently released a roadmap to increase the number of companies submitting verified data, which will run from 2013 onwards.

Trends in external assurance of sustainability reports based on the GRI Framework from India as depicted in Figure 5 reveals a rise in external assurance from 30% in 2006 to more than 75% in 2010. This rise in percentage is significant, more so when coupled with the rise in number of GRI reports from Indian Industry. It is worthwhile to note that GRI recommends the use of external assurance. This is complementary to GRI's Application Level Check, which indicates the extent to which the GRI Guidelines have been applied but does not comment on the content or quality of the reporting.

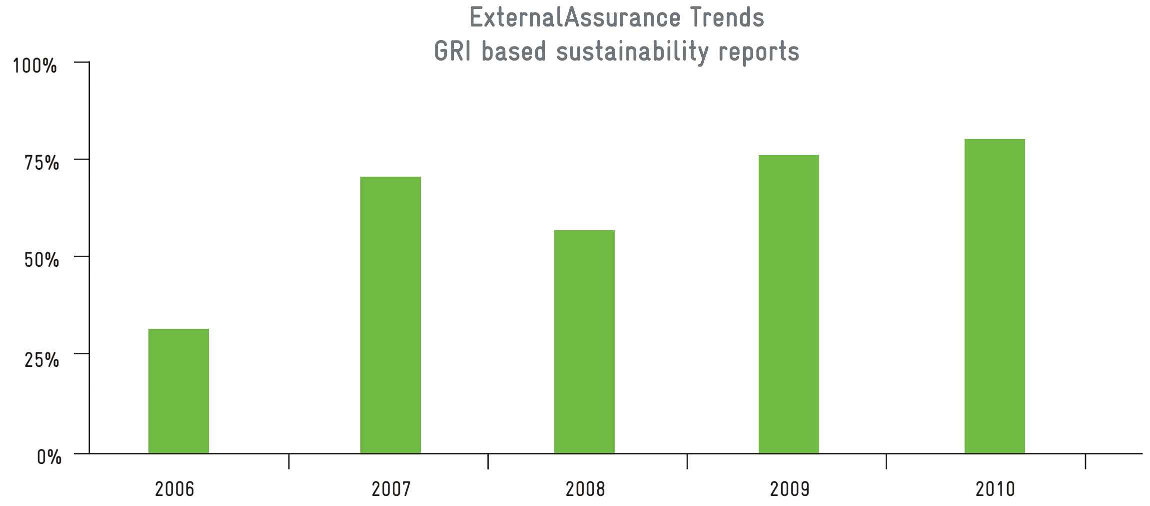


Figure 5: Trends in external assurance of GRI reports from India
(**Source:** Analysis based on information in GRI disclosure database)

Policy Imperatives for Sustainable Business

- Reporting trends from the Indian industry indicate that sustainability reporting in India is steadily acquiring importance.
- The increasing adoption of voluntary guidelines signals a real understanding and commitment to address sustainability in business by organisations.
- However, awareness and adoption of these guidelines are restricted to the larger organizations. It is imperative to enhance this awareness and outreach for facilitating the widespread adoption of the reporting guidelines and their integration with global practices.
- There is an increasing trend of third party assurance of sustainability reports to ensure quality and consistency of disclosures.

18 https://www.globalreporting.org/information/news-and-press-center/Pages/India-produces-most-complete-sustainability-reports.aspx.

19 http://www.see.leeds.ac.uk/news/news- inner/?no_cache=1&tx_ttnews%5Btt_news%5 D=116&tx_ttnews%5 BbackPid%5D=8

Chapter 4

Evaluating Sustainability Disclosures (from the Selected Eight Sectors)

This section analyses the reporting trends on sustainability parameters from the eight sectors chosen, on the basis of the impact of these sectors on the Indian economy and environment.

These sectors are:

- Oil and Gas
- Information Technology (IT)
- Metals and Mining
- Power
- Pharmaceuticals
- Banking
- Construction
- Automotive

Reporting trends of the 110 BSE companies (Annex 2) show that the top three sectors that have disclosures related to sustainability which are distinct from their annual reports are:

1. Oil and Gas
2. Information Technology
3. Metals and Mining

Over 40 percent of the companies included in BSE 200 that belong to high environment impact sectors like Oil and Gas, Metals and Mining, and Construction-related industries report on sustainability performance with a separate report or response. Figure 6 shows the percentage of companies that have separate disclosures related to sustainability initiatives either as per the GRI framework, and/or CDP disclosures and/or CoP filing.

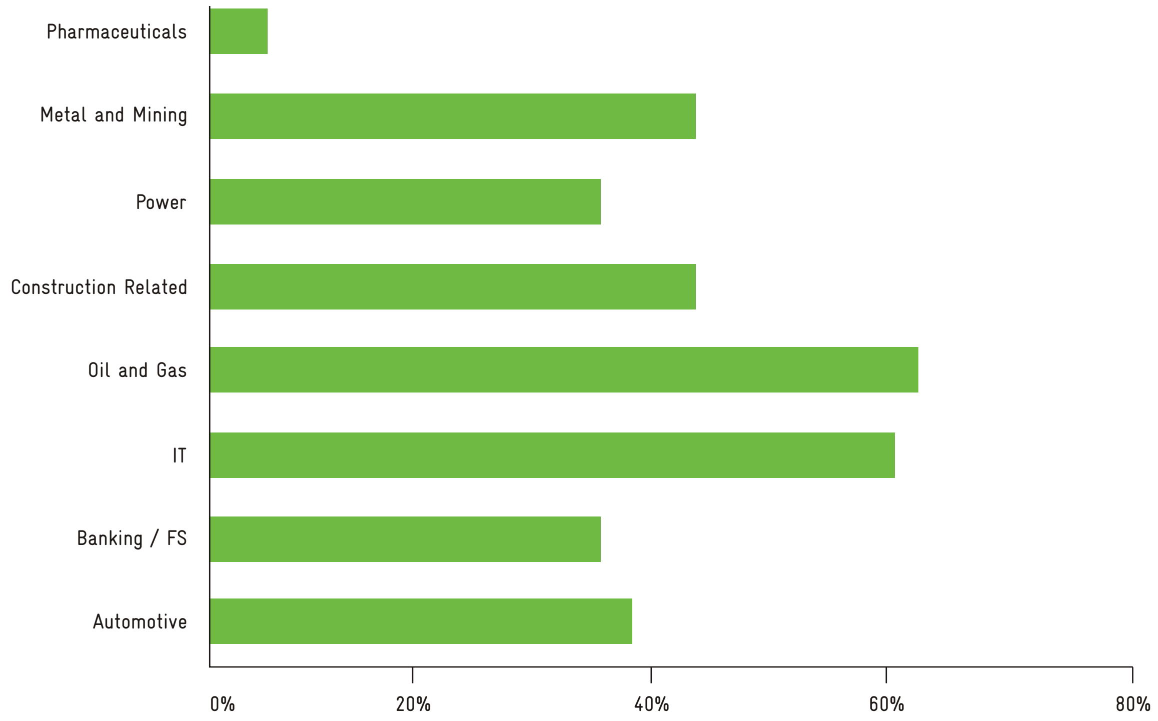


Figure 6: Sector breakdown of separate sustainability reports from BSE 200 companies
(**Source** : Analysis of sustainability disclosures made by companies in GRI report, CDP disclosures, CoP as accessed from company websites,)

Oil and Gas

Oil and gas industries are commonly perceived as an amalgam of organisations consuming mainly finite and non-renewable resources, whose long-term exploitation leads to a decline in the quantity of reserves/available land and increasing solid wastes, chemical, water consumption and emission of polluting effluents. A relatively higher number of companies from this sector that provide reports are in line with global reporting trend.

Information Technology

Information Technology (IT) has also emerged as one of the leaders in reporting though it is traditionally recognised to be a less polluting industry. This high adoption rate could be because most Indian IT companies adopt a service model for outsourced/offshore activities and adopt a global business model spreading across geographies with a significant customer base in the developed economies. It is believed that investors and customers in these economies would be more likely to base their decision of investment/business relations on sustainability parameters in addition to other financial and operational issues.

Metals and Mining

Indian legislation subjects mining projects to rigorous approvals, but concerns however continue to mount on long term sustainability of their operations. Given the high impact from operations on the environment and community, detailed sustainability disclosures from 50 percent of the top companies from the sector is encouraging, and underlines the need for wider adoption.

Financial Services

The financial services sector in India has not been in the forefront of reporting phenomenon. Globally, this sector has been setting trends in sustainability reporting and accounts for the largest number of companies from an individual sector that report under sustainability parameters[20]. Given the influence that they exercise over their clients and investing companies, which, in turn, have a chain of companies and suppliers who are controlled or significantly dependent on them, a higher participation by this sector could revolutionise the reporting landscape in India.

Power and Utilities

Globally, power and utilities as a sector is positioned in the higher echelons of the reporting grid but in India, only a handful of companies in this sector prepare sustainability reports. The government companies in this sector lead the reporting trend though a growing number of private sector companies in the sector are also in the process of imbibing formal sustainability reporting parameters.

Disclosure Trends

An analysis of disclosures made, shows that there is no single preferred reporting format in India as yet. Since the National Voluntary Guidelines (NVGs) are yet to be adopted by Indian companies, they do not feature in this break-up. Further, the NVGs endorse reporting frameworks like GRI to communicate the performance on sustainability indicators, with clear linkages to the principles outlined.

The choice of disclosures and associated reporting formats is determined by the nature of information required and the ease with which companies can make the data available. The choice is also influenced by the level of maturity exhibited by a company in its sustainability practices.

The CDP questionnaire requests for information on indicators pertaining to climate change alone. UNGC's CoP is about the implementation of a normative framework. The CoP asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption, and requires a communication of progress in this regard. GRI is a comprehensive reporting framework that seeks disclosures on economic, environmental and social issues, and advocates qualitative as well as quantitative disclosure and measurement and monitoring processes. The NVGs are guidelines that would have to be adopted by Indian companies in the coming years, starting with the top 100 listed companies as proposed by SEBI.

For companies that have not matured in their business sustainability practices, it is easier to report on climate change performance, and then expand it to include other performance indicators since over 39 sectors in India have to undertake EIA as a compliance requirement, and would therefore have systems and processes in place for covering certain elements for their impact assessment.

The CoP and the NVGs have a phased approach to disclosures, wherein they provide an initial learning phase when the statement of commitment by the management is taken as an assurance while the organisation aligns its systems and processes to address sustainability challenges across the ESG parameters. The GRI reporting framework has three application levels A, B and C that define the parts of the GRI Guidelines that have been covered in a sustainability report. This allows organisations to address limited portions as per their readiness similar to the phased approach of the NVGs and CoP of the UNGC.

Reporting Trends of Indian Companies

- Reporting formats and disclosures are based on guidelines and questionnaires and are primarily voluntary. Companies therefore have a choice, determined by their preparedness to deal with the challenges concerned and their sustainability risk analysis.
- Companies in certain sectors are required to conduct an Environment Impact Assessment and find it easier to make requisite disclosures. Therefore, sectors like Metals and Mining, Oil and Gas, , and Construction-related activities are leading adopters of separate sustainability reporting practise.
- A notable exception in this regard is the Indian Pharmaceutical Industry, where in spite of its large manufacturing base in India, companies do not seem to have separate sustainability reports from the top companies and lags behind in reporting.
- Only a few power and financial services companies in India report on sustainability unlike in Europe and North America. The financial sector can significantly influence the outcomes of the reporting landscape through the clients of the companies in this sector while traditional power companies are amongst the highest consumers of finite and non-renewable resources which call for higher demonstration of commitment to sustainability reporting.

Evaluating Disclosures on Sustainability

The following sections analyse the disclosure trends in terms of communication and transparency. The analysis offered is as per the information available in the public domain and primary consultations. Economic disclosures are not evaluated in this study on sustainability, as India has mandatory economic reporting and disclosure standards that all companies have to follow. A total of 110 companies belonging to the eight sectors were evaluated for their disclosures. Information sources were:

Source of information	Remarks
Annual Reports	110 number
Sustainability Reports / Voluntary Disclosures*	75
Company Websites	110
Primary Consultations	Views of over 20 companies to understand corporate perspective on sustainability reporting

*Distinct from annual report-GRI based report, CDP response and CoP

The sectors were chosen for their high impact on environment and/or their importance to the Indian economy. Details of the sample and methodology are in a later section.

Framework of Evaluation

Companies use various parameters for making disclosures in their sustainability report. The trends on each of the following key enablers are discussed:

- Stakeholder engagement
- Senior management involvement
- Disclosures on performance indicators related to environment, social and governance parameters
- Linkages of ESG issues to business risks

Figure 7: Parameters evaluated for Disclosures in Sustainability Reports

20 http://www.fedcenter.gov/_kd/Items/actions.cfm?action=Show&item_id=16633&destination=ShowItem, presentation by Mike Wallace, Director, Global Reporting Initiative

Stakeholder Engagement Process

Stakeholder input for identification and prioritisation of sustainability initiatives is critical to sustainability reporting. This shared decision-making not only builds trust, but also helps organisations perform better.

This section focuses on disclosures pertaining to stakeholder engagement with a focus on the processes followed, starting from stakeholder identification to how companies react to the stakeholder inputs.

Stakeholder engagement leads to shared decision-making in identifying risks and opportunities, and in prioritising sustainability issues. Business sustainability is closely linked to the stakeholders who are directly impacted by the business operations, or those who impact the business operations. It is, therefore, important to engage with them and capture their inputs as companies plan and prioritise their business initiatives.

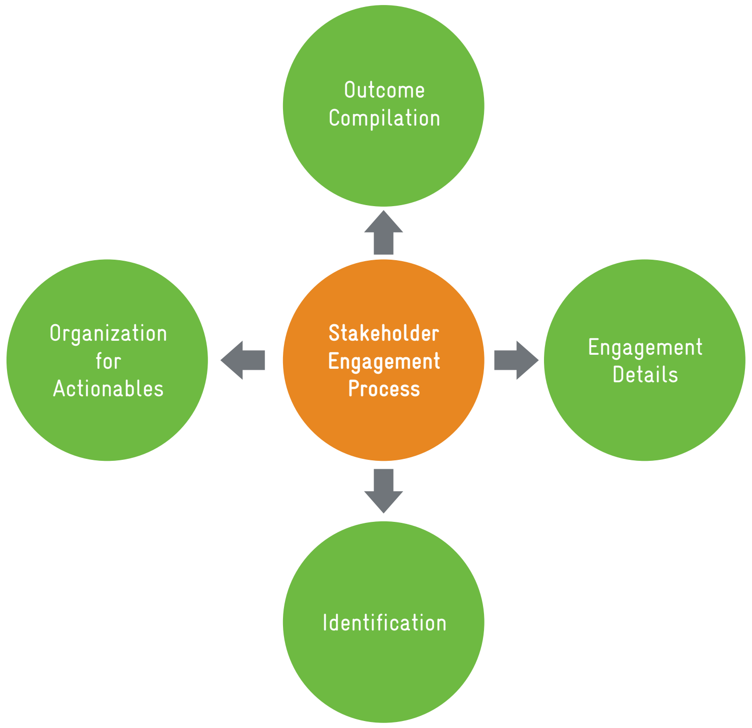


Figure 8: Factors Characterising Stakeholder Engagement

Stakeholder Identification

For sustainability initiatives to be effective and improve sustainability performance, the first step is to identify the stakeholders and capture their inputs for identification of the material sustainability issues. This is a key input for scoping an organisation's business sustainability performance, and for devising a strategic roadmap.

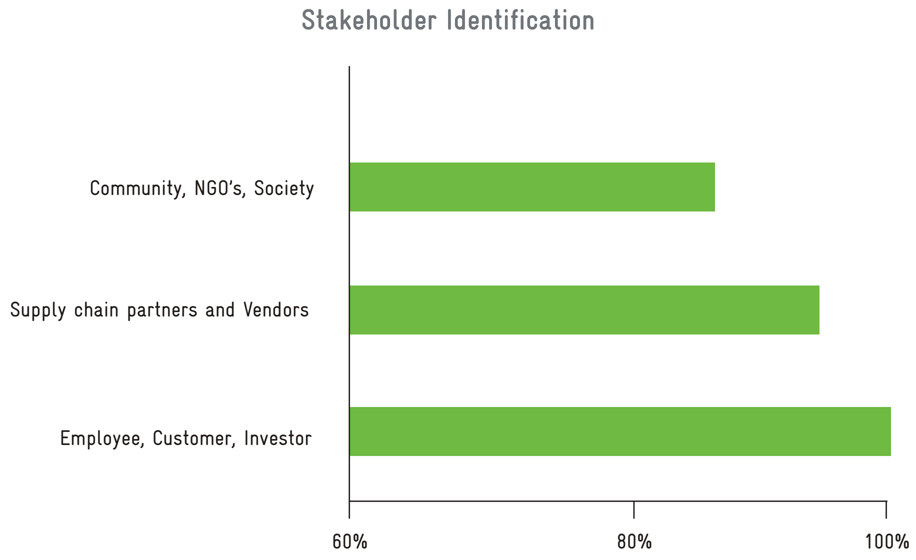


Figure 9: Level of Stakeholder Identification among Indian Companies

An analysis of the sustainability reports reveals the following:

- All companies have a process for identifying their key stakeholders.
- There is an increasing realisation of the need for channel partners and vendors to adopt sustainable business practices and to complement the sustainability efforts of the company they are dealing with.
- Nearly 90 per cent of the reporting organisations have embraced the concept of inclusion of the views of their stakeholders as they reach out to the community and civil society for their inputs on sustainable business practices.

This outreach and inclusiveness of the stakeholders is important and companies in India are heading in the right direction.

Stakeholder Engagement Details

Traditionally, companies have been engaging with identified stakeholder communities to apprise them of their performance on financial indicators. Sustainability requires a two-way information flow wherein the company not only shares information on sustainability performance, but also undertakes awareness and sensitisation programmes with various stakeholder communities before seeking their inputs for shaping sustainability strategies. Further, for facilitating the effective capture and follow-up of the stakeholder engagement, companies need to put into place a process to capture the inputs, and then track the actionable goals. The components of this process are depicted in detail in Figure 10.

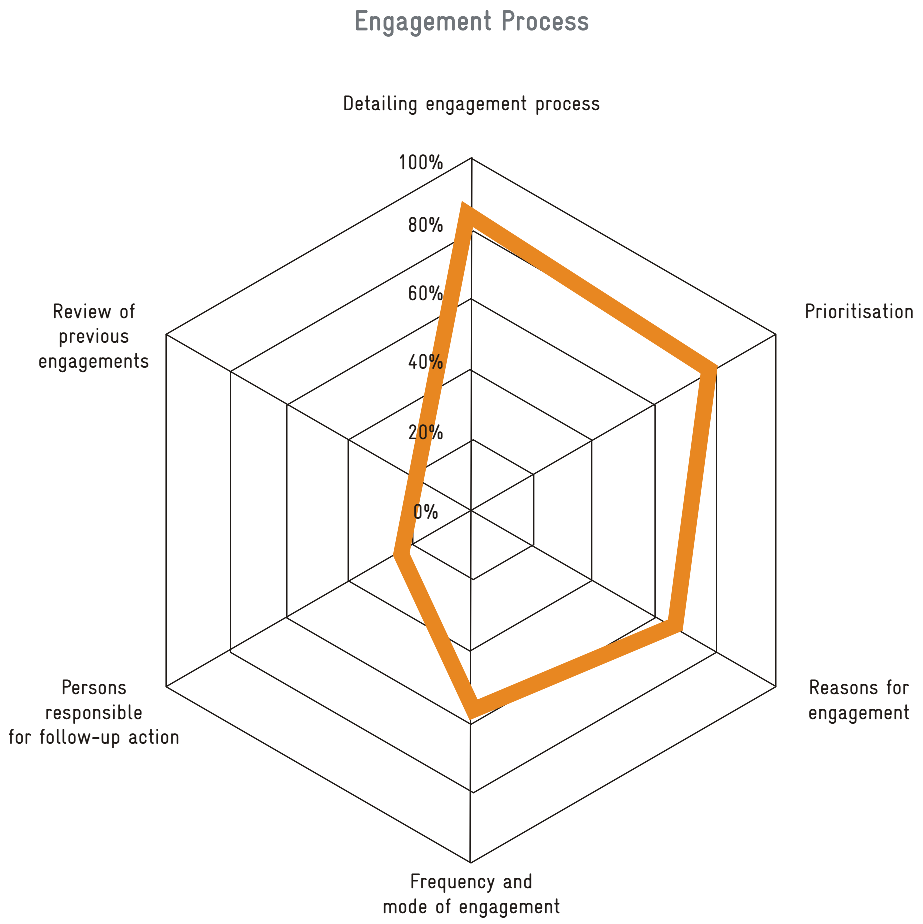


Figure 10: Components of the Engagement Process for Sustainability Reporting

The following trends can be observed among Indian companies engaged in sustainability reporting:

- Companies often make disclosures on prioritisation, matrix for sustainability issues, and reasons for engagement (satisfaction surveys, financial performance, discussion on ESG issues, etc.) with various stakeholder communities, as also the frequency and mode of engagement.

- Companies rarely compare and track the outcome of engagement and analyse trends in changing consumer behaviour and societal preferences.

- Further, companies do not clearly indicate the process for follow-up on the material issues and the departments/persons with whom the responsibility rests.

Outcome of Stakeholder Engagement

All companies compile details of issues identified during the stakeholder engagement process. This compilation consists of all material issues, including ESG parameters. It has been seen that:

- Companies do not always link these issues to specific stakeholders in their compilation arising out of such an engagement.

- Only one-third of the companies establish linkages between the identified sustainability issues and the business risk that the latter pose.

This makes it difficult to track how stakeholder priorities are shifting, and their impact on business viability. Figure 11 indicates the levels of implementation of these processes.

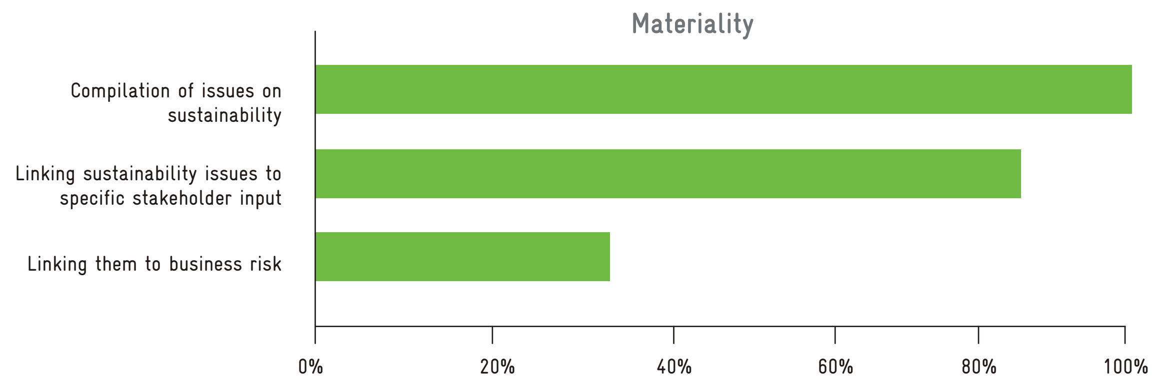


Figure 11: Extent of Stakeholder Engagement

Organisational Structure for Implementation of Sustainability Objectives

Sustainability is an important and emerging area of activity. Without a dedicated function for sustainability, there could be a lack of ownership and the implementation of projects could be hampered.

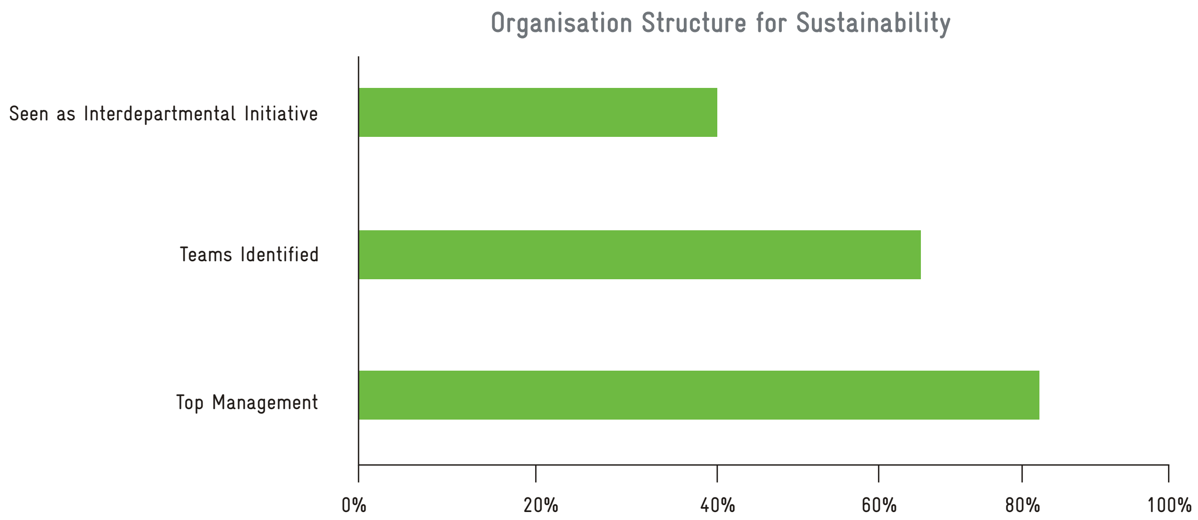
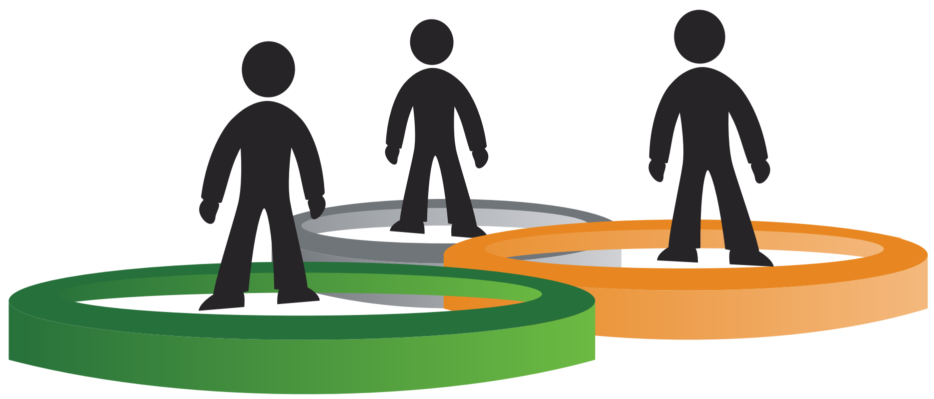


Figure 12: Organizational Structure to address sustainability challenges

- The organisational structure for sustainability projects (seen in Figure 12) reveals that most companies nominate a high level of top management personnel responsible for such projects but there is a lack of defined interdepartmental or cross-functional teams



that support such commitment. Less than 40 per cent of the companies disclose their interdepartmental team composition, which is fundamental to the success of sustainability practices. Hence, the team structures do not always reflect the commitment required for ensuring the success of these initiatives.

- Less than 25 per cent of the companies have identified specific persons/positions that are responsible for follow-up action on inputs from stakeholders (Figure 10), which also indicates that the organisational structure needed for addressing the issue of sustainability is not in place in most reporting companies.

This could impede the implementation of sustainability projects. Companies need to set up cross-functional teams, with a defined responsibility matrix under the stewardship of a top management person for facilitating the effective adoption of sustainable business practices.

Ensuring Effective Stakeholder Engagement

- Stakeholder engagement is an ongoing practice for Indian corporates. However, the process of inclusion and seeking the inputs that specifically pertain to sustainability issues is still evolving in these organisations.
- Companies preparing sustainability reports are aware of the key role that stakeholder engagement plays in shaping their strategy, and they are increasingly reaching out to the community and other partners in their value and supply chain for inputs.
- However, the processes required for the effective integration of stakeholder inputs with company strategy are yet to mature.
- Clear linkages between stakeholder inputs and business risks and opportunities are needed for bringing about greater motivation and commitment to sustainability.
- Inter-departmental initiatives that can ensure the effective deployment of projects are imperative as well as a review of previous engagements that can identify learning from past initiatives, emerging trends and changing societal preferences.

Chapter 6

Management's Involvement in Sustainability Initiatives & Reporting

The commitment of the top management to sustainable business practices is the key to the success of the companies concerned. In the context of evolving reporting and regulatory frameworks, there is need for adequate resource allocation and inculcation of a belief in the principles that the company wishes to propagate.

It is also incumbent upon the senior management to take ownership and communicate the importance of these principles within the organisation in order to engender their acceptance and adoption among a wide range of stakeholders. This section analyses the processes that influence the expression of interest of senior management towards sustainability business practices.

Sustainability reporting requires expertise and involves complex processes. Involvement and ownership by the top management is a critical part of this process, given the ability of members of the top management to effect changes within the organisation and to develop a long-term vision and goals for the organisation. Consequently, several indicators that lead to and define the involvement of the top management in business sustainability have been analysed here. The views of the management which have been expressed in the annual reports, corporate communications, websites and sustainability reports of the organisation have been stratified and aggregated to facilitate a consolidated analysis. The linkages established between sustainability issues and business risks and opportunities have also been identified to indicate the level and quality of the involvement and interest of the management.

The key elements of the management's involvement are delineated in Figure 13.

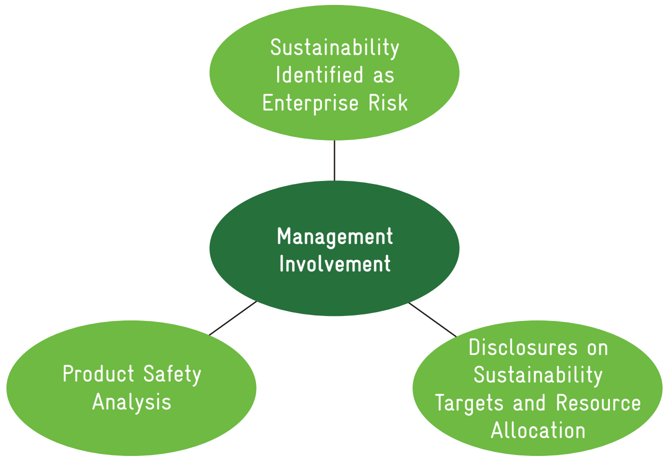


Figure 13: Key Elements Pertaining to Management Involvement in Sustainability Issues

Setting of Targets and Resource Allocation

The key to the success of any measurable goal lies in the establishment of measurement, monitoring and correction protocols in a project. This is achieved by setting pre-defined targets and benchmarks against which performance can be measured. Further, projects are evaluated against the investments made in terms of the total costs and returns against such outlays. Some of the significant findings related to target setting and resource allocation for achieving sustainability are as follows:

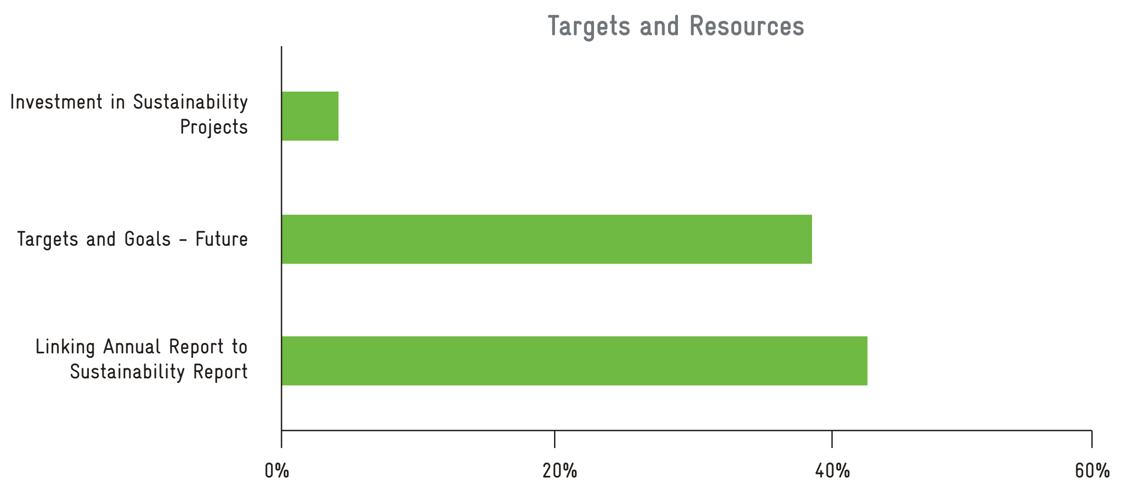


Figure 14: Information on Investments Earmarked for Sustainability

In current reporting practices by Indian companies, information on investments that the company has earmarked for sustainability is missing from most of the reports (Figure 14).

- While targets and goals for certain sustainability parameters have been laid down, typically on Greenhouse Gas (GHG) emissions and/or employee safety matters, a systematic compilation of these initiatives and performance expectations or the targets is not reported. Less than 40 per cent of the companies studied set any quantified targets in their sustainability reports.

- Disclosures on investments for sustainability projects are usually lost in the company's consolidated financials, and it is difficult to extract this information from the current reporting practices.

- Less than 10 per cent of the companies were found to have disclosed investments made for their various sustainability projects pertaining to the environment, employees and social needs.

Many companies that prepare separate sustainability reports fail to link them with their annual reports. A company's annual report in India is necessarily shared across stakeholder communities, and the failure to link sustainability reports with these reports, which constitute the cornerstone of fiscal and corporate reporting in India, can hamper the communication of the value propositions that a company wishes to promote through its sustainability initiatives.

Sustainability and Top Management Agenda

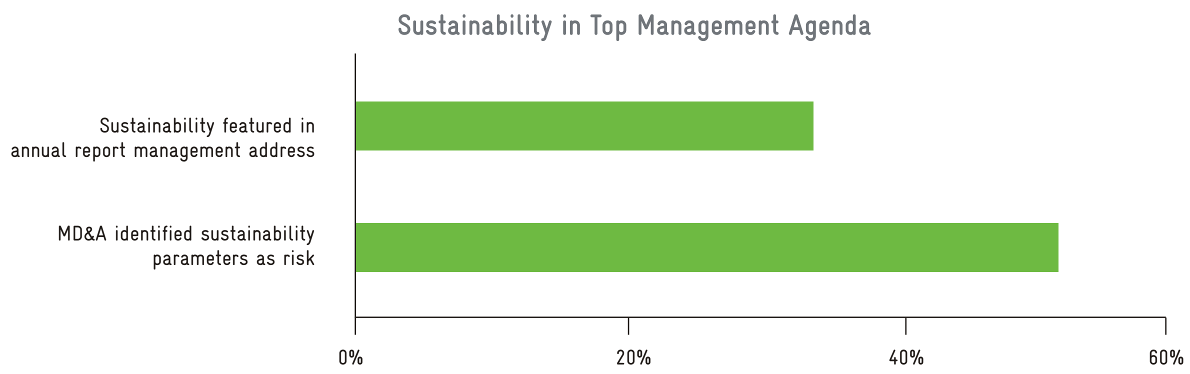


Figure 15: Incorporation of Sustainability Issues in Company Agenda

Companies that have identified sustainability as one of their areas of focus are expected to make incisive disclosures on sustainability as a business strategy, including the preparation of separate sustainability reports. An analysis of the manner in which sustainability features in the agenda of the top managements of various companies shows that less than 40 percent of the organisations studied issue separate sustainability reports addressing stakeholders. This leads to the interpretation that the company's annual report, which is the fundamental shareholder, investor and statutory reporting mechanism, is not integrated with the sustainability initiatives and the two reports operate in isolation from each other. Only about 50 per cent of the organisations studied are seen to discuss risks and opportunities, which include ESG issues, indicating that the importance of ESG issues as a boardroom agenda is still evolving.

The Indian Companies Act and other corporate, industrial and labour laws and regulations have comprehensive requirements that companies need to follow on ESG measures, and non-compliance has significant punitive consequences. Clause 49 of the listing agreement requires an Indian company to have an exhaustive list of matters that need a mandatory intervention of the Board, and they include ESG issues like the effect of accidents and dangerous occurrences, discharge of material effluents and pollution issues, substantial public or product liabilities and labour problems, among other such matters. The capital market regulator, SEBI, considers these to be critical as risks for companies in India and has hence stipulated that this information should be part of the listing agreement. However, Indian boards are yet to integrate these parameters into the reporting framework of risks in their annual reports.

Sustainability and Management's Discussion and Analysis (MD&A)

Management Discussion and Analysis is an important investor communication document. It is a mandatory requirement under the listing agreement of SEBI and forms a part of the Director's Report. The eight broad categories that are included in a company's MD&A are:

1. Industry Structure And Developments
2. Opportunities And Threats
3. Segment-wise And Product-wise Performance
4. Outlook
5. Risks & Concerns
6. Internal Control Systems And Their Adequacy
7. Discussion On Financial Performance With Respect To Operational Performance
8. Material Developments In HR/Industrial Relations Including Number of People Employed

Sustainability and climate change issues are usually discussed under opportunities and threats and/or Risks and concerns and/or Material development in HR/ Industrial relations in the MD&A.

A study on 'Evaluation of the Quality of MD&A in India'[21] by Thought Arbitrage Research Institute and ICICI Securities revealed that most companies:

- Do not quantify the effect of identified risks on future results
- Do not discuss the independence and integrity of non-financial data

- Do not co-relate the impact of change in outlook on cash flows, liquidity and resources
- Information tends to be a conglomeration of unrelated data
- Risks are not evaluated into real, probable or remote

These concerns are similar to concerns relating to sustainability reporting, where the risks, controls, targets and results are normally not quantified and co-related.

A break-up of the sustainability issues that feature in the agendas of top managements in the MD&A (Figure 16) shows that environment-related issues concerning sustainability top the agenda, while employee welfare and safety are other matters of concern.

- Risks related to environmental sustainability are identified by 50% of the companies in their annual reports. These risks include issues pertaining to material usage, emission, waste management, biodiversity and energy consumption.
- Employee availability, training and welfare are key concerns in the risks related to social sustainability. In IT and other sectors which signify a large level of human intervention, this is a more pronounced risk.

However, companies have yet to extend their business sustainability analysis and related risks and controls continuum to cover the impact on the community, especially the negative impact arising from the company's operations.

Less than 10% of the discussions and communications emanating from the organisation's top management feature risks to the community, which may arise due to company operations, and may include accidents, oil spills and other incidents that will directly impact the community negatively. Figure 16 provides a graphic representation of these risks.

This situation is, however, expected to improve over time, as companies are increasingly engaging with the community and civil society in their stakeholder engagement processes (Figure 9) and seeking to address the concerns of the latter.

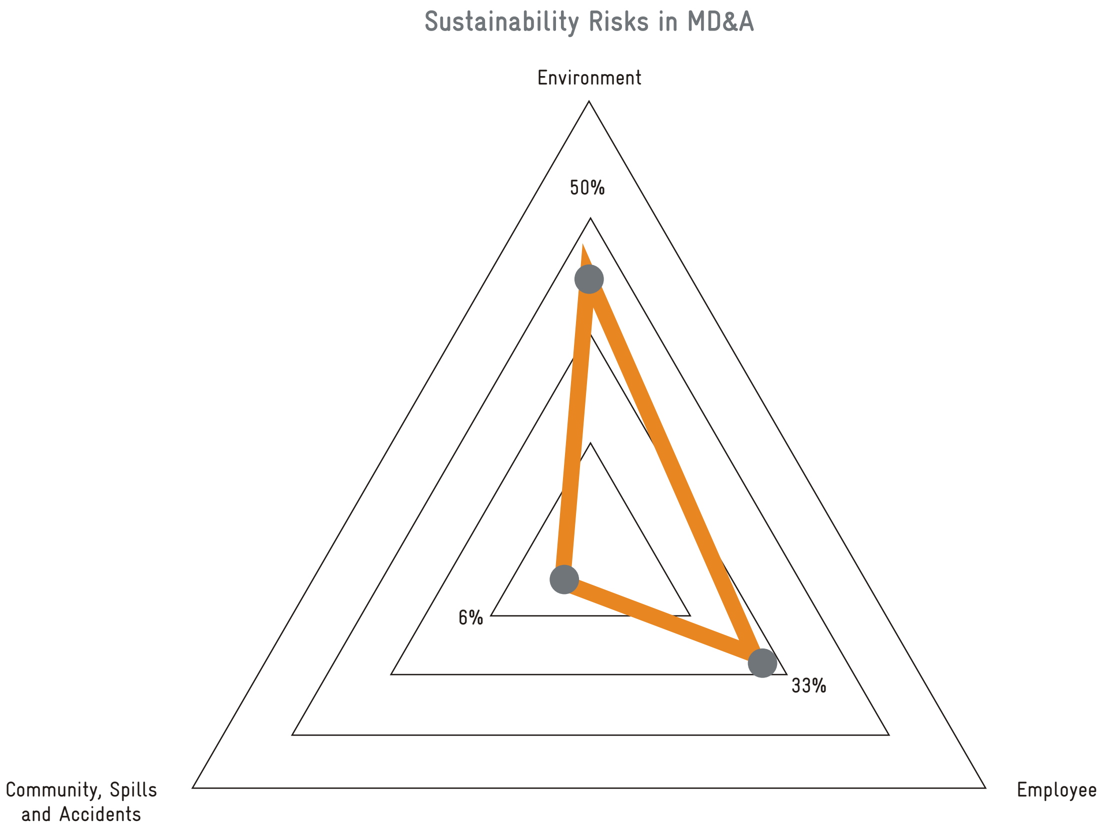


Figure 16: Sustainability Risks Identified in MD&A

Management Involvement in Initiatives and Reporting

- Project monitoring and evaluation hinges on information related to targets and resource allocation.
- The current disclosures do not have specific information in this regard, making it difficult to judge the efficacy of monitoring.
- There is a need to strengthen organizational strategy in the area of sustainable business, which can then be translated into a roadmap for implementation.
- Involvement of the senior management members is essential as they review and make mid- course corrections to enable the company to achieve its targets along its journey towards sustainability

21 http://tari.co.in/index/reports/id/14

Chapter 7

Reporting on Performance Indicators- Environment

This section analyses the disclosures on the environment performance indicators as per the GRI Framework. While companies are increasingly reporting in terms of absolute numbers on the environmental impact, efforts to link them with operations have not yet taken off. Indicators discussed in this chapter are closely linked to climate change. Initiatives undertaken to address environmental concerns are also directly mitigating the ill effects arising out of climate change

The Environment Indicators

The issues that are considered reportable under the environment include initiatives related to materials, emission, effluents, and biodiversity. The reporting trends for the various initiatives are described below.

1. Materials

Indian companies are undertaking initiatives primarily in terms of modifying material usage practices and material recycle/reuse to minimize the impact on the environment.

The key findings pertaining to material usage are delineated below:

- Most companies report on their material usage trends in absolute numbers. In their financial reports, they also include the consumption of key raw materials and intermediates in terms of both quantities and value. However, this information does not get linked to the sustainability reports and the overall plan on material usage does not reflect the overall intent and plans of the company
- There are no disclosures on targets for improving usage trends and plans for consequent reductions.
- The usage of materials is linked to the total output and the correlation of inputs and outputs is not always reported, making it difficult to assess the reasons for any changes in material consumption
- Reporting on target intensity constitutes less than 20 per cent of the total reporting.

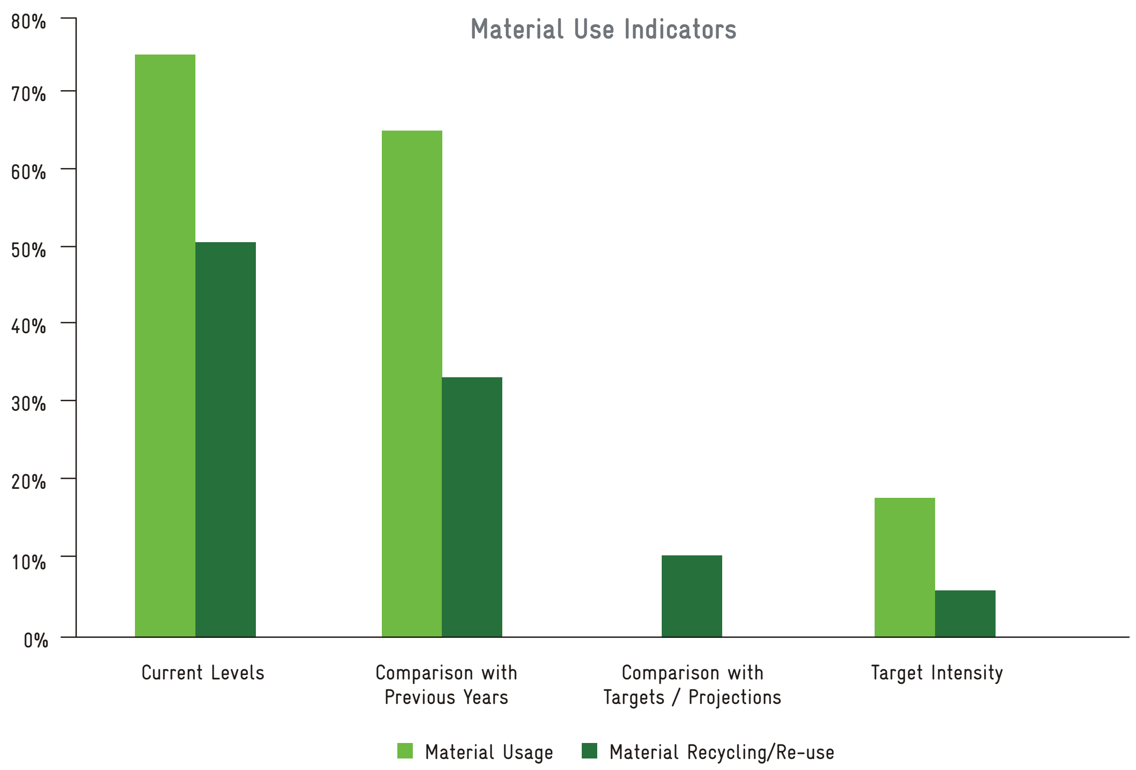


Figure 17: Reporting on Material Usage

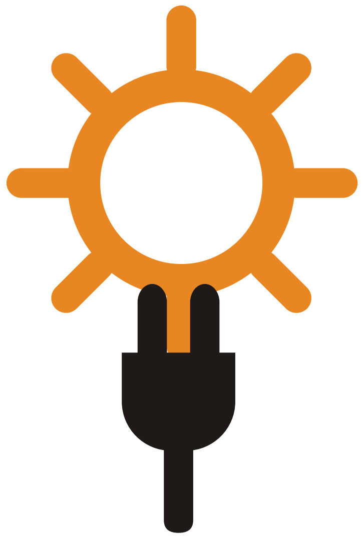
Similarly, the following findings are observed in the case of disclosures on material recycle/reuse:

- Companies disclose on current levels of material recycled/reuse in absolute numbers.
- Less than 10 per cent of the companies disclose facts on target intensity or its linkage to operations and plans for graded reductions.
- Some companies have started setting targets on recycling material.

2. Energy

The energy sector in India is largely dependent on natural non-renewable resources. Management of natural resources is one of the elements of mitigating harmful effects of climate change.

Over 90 per cent of the reporting companies make a statement on energy consumption in their sustainability reports. The Indian Companies Act stipulates that in the case of an



Indian company, the director should report the particulars of energy consumption and conservation efforts made by the company. This may be a reason for the high incidence of disclosures on this aspect of reporting.

The key findings in this regard (depicted in Figure 18) are:

- Companies rarely talk about targets to be achieved with respect to consumption.
- Nearly 80 per cent of the companies disclose comparisons of their year on year performance on energy usage.
- Nearly 20 per cent of the companies link energy consumption with output. This trend makes easier to evaluate performance and process efficiencies.

The advent of policy initiatives to mitigate the impact of climate change and the consequent focus on renewable energy have led to companies undertaking projects to integrate renewable energy sources in their operations. However, there is still a minimal level of measurement and performance reporting. Many of these initiatives are not directly incorporated in the operations but serve to offset indirect consumption.

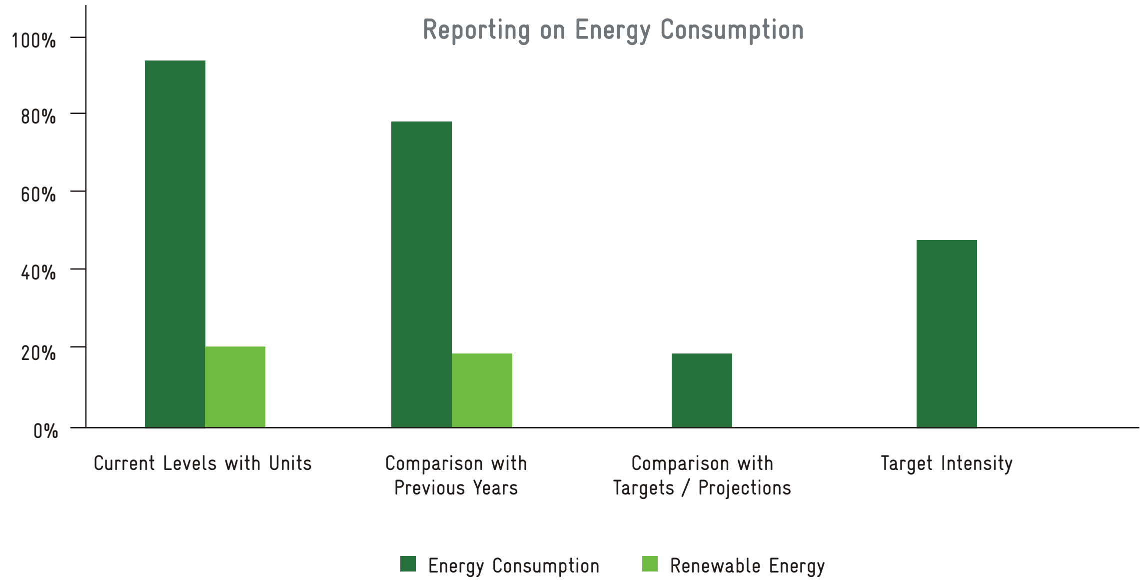


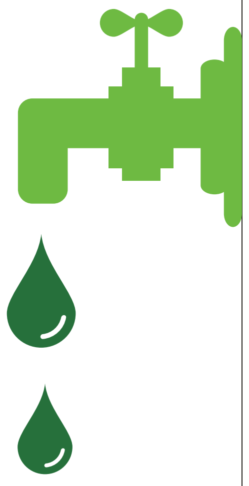
Figure 18 - Reporting on Energy Consumption

It has been observed that:

- About 20 percent of the companies share data on current usage.
- Performance indicators are yet to be linked to output.

3. Water

Water availability and quality is likely to worsen as an effect of climate change. This will have a wide range of implications for businesses[22] including disruptions in operations, power availability, community opposition to company's operations etc. Further, water, its availability and quality is directly linked to precipitation patterns. Therefore management of this natural resource for sustainability is important.



Water scarcity is a reality for India in both the urban and rural areas. Most of the major cities have a limited supply of potable water. Further, there have been studies revealing alarming trends of the receding water table due to the indiscriminate consumption of water. This makes reporting on performance indicators pertaining to water extremely important.

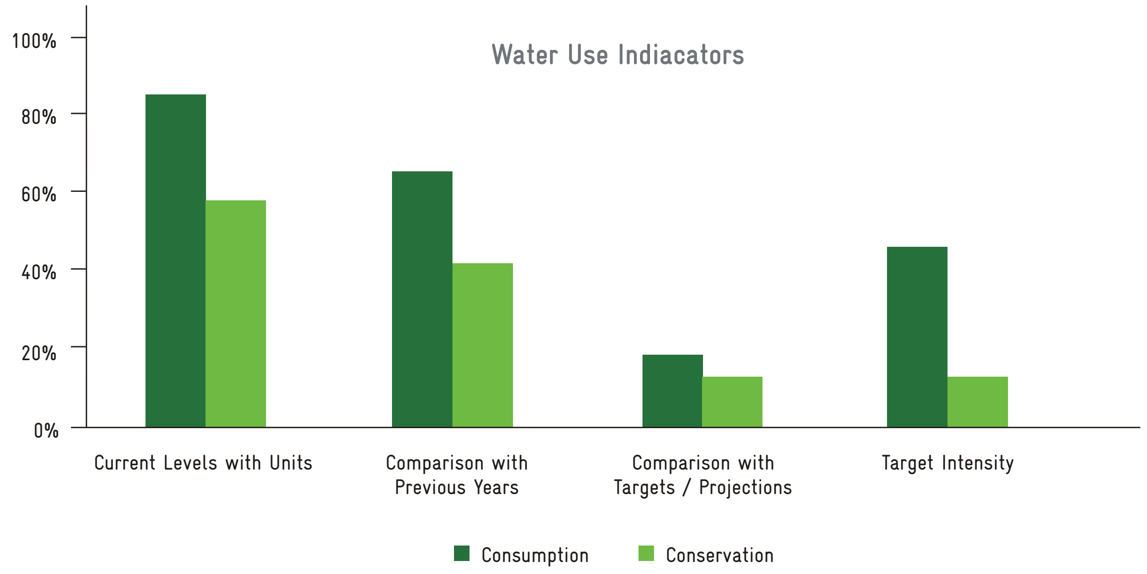


Figure 19: Water Usage Indicators

The key findings pertaining to disclosure on water usage (as seen in Figure 19) are as follows:

- Over 80 percent of the companies report on water consumption patterns over time.

- Just over 40 percent of the companies link water usage to the output, making it difficult to estimate efficiencies.
- As with most other indicators, less than 20 per cent of the companies set targets.

Water conservation and responsible consumption are identified as the only mitigating strategies to address water scarcity. The trends pertaining to disclosures on water conservation initiatives are as follows:

- Nearly 60 percent of the companies have undertaken projects on water conservation
- Disclosure trends relating to water conservation are similar to those seen in other performance indicators, with less than 20 percent of the organizations setting the targets to be achieved.
- A comparison with targets has started.
- There is limited reporting on target intensity by linking it to product/process outputs or inputs, and it accounts for less than 10 per cent of the reporting on this indicator.

4. Biodiversity

Over 70 percent of the companies have initiated projects on the preservation of biodiversity (as seen in Figure 20).

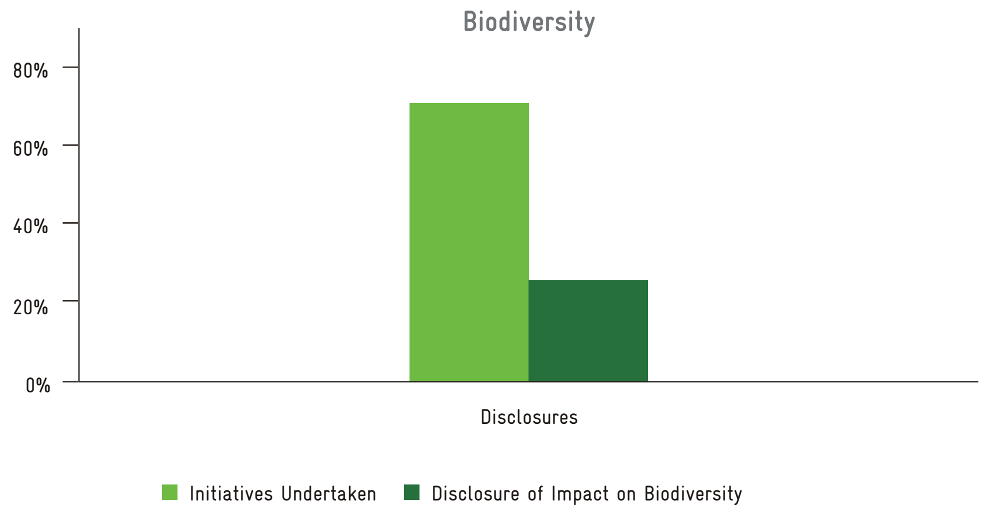


Figure 20: Disclosures on Biodiversity impact and initiatives

Companies having identified it as one of the relevant sustainability indicators do not disclose the impact of their operations on biodiversity.

This makes it difficult to judge the efficacy of the mitigation initiatives.

5. Emissions and Effluents

Adding more of greenhouse gases, such as CO2, to the atmosphere intensifies the greenhouse effect, thus increasing the surface temperature of the Earth. Greenhouse gas (GHG) emissions as well as pollutants constitute one of the biggest concerns of the world today. GHG contribute to climate change[23], intensifying the greenhouse effect of warming the earth's surface with increasing greenhouse gas concentration, concerns have arisen and attract considerable government time and resources. India has currently eight missions under the National Action Plan on Climate Change (NAPCC) that are working on various aspects of climate change. Reporting and disclosure on this indicator is by far the most prevalent of all environmental indicators. The key findings in this regard (portrayed in Figure 21) are as follows:

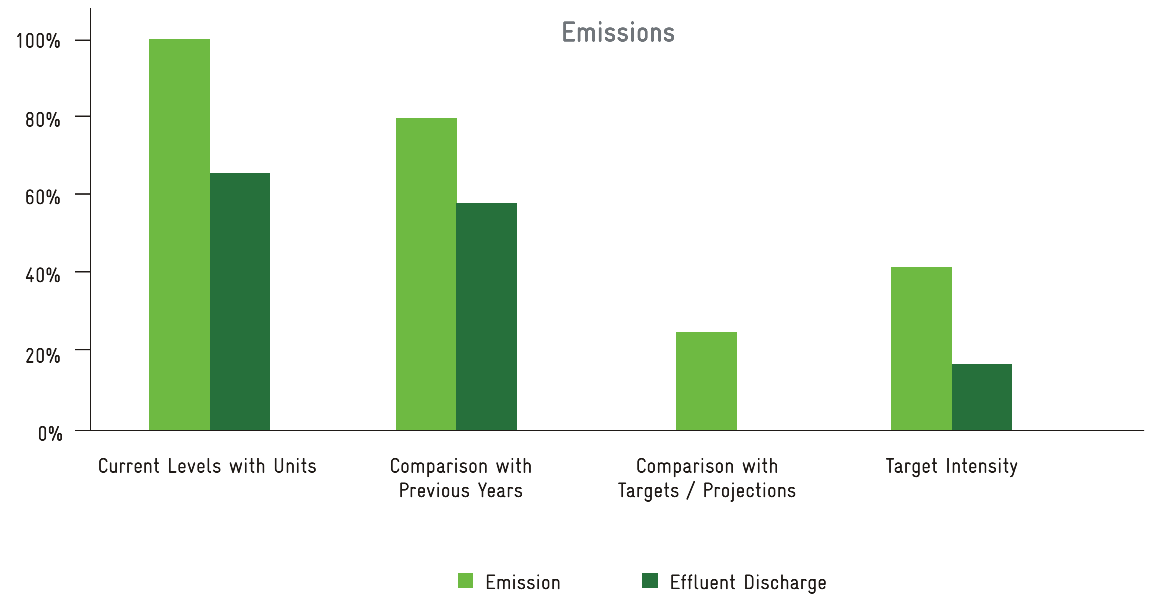


Figure 21: Reporting Trends on GHG Emissions

- All companies with sustainability reports make disclosures on emissions.
- Around 40 percent of the companies link emissions with output.
- Reporting on effluent discharge and waste management is identified as a material indicator by over 80 percent of the companies preparing sustainability reports.
- However, no company discloses any goals and targets on mitigating effluent discharge.

Reporting Trends on Performance Indicators-Environmental

- Indian organizations have been reporting on several aspects of environmental performance indicators. Some performance indicators are also in line with Indian legislative requirements like GHG emissions, energy consumption and therefore exhibit higher percentage of disclosures as compared to disclosures on other indicators, for example, Biodiversity.
- Integration of sustainable practices with operations are not apparent as there is little reporting on target intensity for many of the environmental performance indicators.

21 http://tari.co.in/index/reports/id/14

22 Climate Change and the Global Water Crisis: Climate Change and the Global Water Crisis: What Businesses Need to Know and Do, White paper by Pacific Institute and UN Global Compact. Http://www.unglobalcompact.org/docs/issues_doc/Environment/ceo_water_mandate/UNGC-PI_climate-water_whitepaper_FINAL.pdf

23 http://www.ipcc.ch/publications_and_data/ar4/wg1/en/faq-1-3.html

Global climate change is caused by an intricate chain of both micro and macro social and environmental processes. The three major aspects of global environmental changes are changing composition of atmosphere, loss of biodiversity, and declining availability of critical resources and services.

Reporting on Performance Indicators- Climate Change

This section analyses the disclosures that are specific to the risks arising from climate change, and the manner in which Indian companies view climate change as a risk to their business and operations.

The information available in the public disclosures of the CDP has been studied for analysing the prevalent trends. Organisations view climate change both as a risk for their business operations and as an opportunity for the introduction of new products and services.

The disclosures on environmental performance indicators such as GHG emission, biodiversity initiatives, energy and water consumption, and conservation initiatives as well as effluent treatment in the previous section relate to climate change. This section analyses strategic approach of organizations and management perception of urgency and importance of this issue.

Indian Policy Framework

Global climate change is caused by an intricate chain of both micro and macro social and environmental processes[24]. The three major aspects of global environmental changes are[25] changing composition of atmosphere, loss of biodiversity, and declining availability of critical resources and services. The previous section captured the disclosure practises of industry on environmental performance indicators, including GHG emissions, energy and water usage and conservation, biodiversity initiatives, which directly address climate change concerns.

This section analyzes perspectives on the specific issue of climate change in policy framework and management strategy.

The recent announcement of the Ministry of Finance to expand the scope of the annual economic survey to capture the state of human development and climate change issues is an important step towards addressing challenges arising out of climate change and environmental issues. Earlier, a multi-stakeholder group was set up under the Commission[26] of the Indian Government in January 2010 to develop a roadmap for India for achieving the target of low carbon development. This is expected to feed into the Twelfth Five Year Plan, an integrated development plan that India adopts once in every five years to strategize the path to progress and welfare. This highlights the commitment of the country towards mitigating climate change risks.

The group submitted an interim report titled 'Low Carbon Strategies for Inclusive Growth' in May 2011, which includes alternative strategies to bring down GHG emission till 2020 by 20- 25 percent, as compared to the 2005 base, while assuming that the Indian economy will grow at the rate of 8-9 percent during this period. The initial recommendations made in this report include the implementation of low carbon strategies up to the year 2020 for power, transport, manufacturing industry, construction and forestry sectors.

With a strong policy focus, the Indian industry is also gearing up to meet the challenge of climate change. This implies that the business policies of the past need to be redefined. India requires rapid development but simultaneously, it also needs strategies to adapt to and mitigate the process of climate change.

Climate Change as a Business Risk

A study of climate change linked to business risk (observed in Figure 22) reveals that though companies identify it as a risk in their sustainability reports, they do not always link it to their business risks as identified in their annual reports. The findings in this regard are:

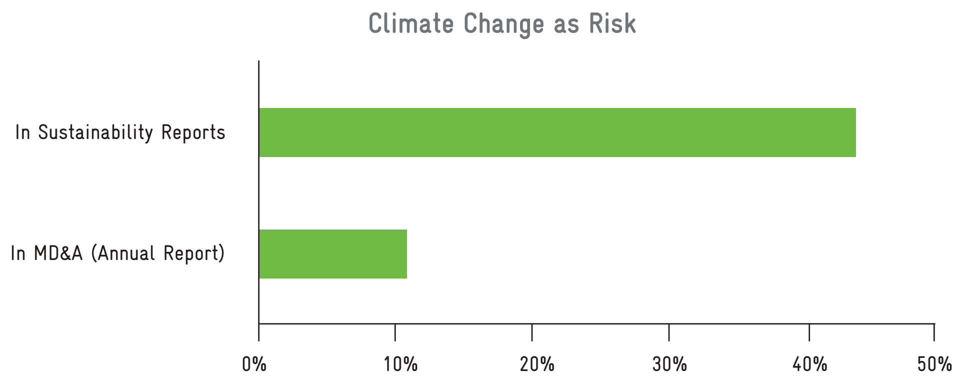


Figure 22: Linking of Climate Change to Business Risks

- Climate change is identified as a risk in sustainability reports by over 30 percent of the companies.
- However, less than 20 percent of the companies with separate sustainability reports incorporate this as a risk in the enterprise risk analysis in their annual reports.

Our analysis of the annual reports of companies which do not have separate sustainability reports leads to an identification of several environmental issues as risks, but does not necessarily relate it to climate change.

Climate Change: Risk and Opportunity Analysis

An analysis of the CDP disclosures from India made by companies in the eight sectors selected for the study show that the risks arising out of a change in the regulations and physical climate change parameters are perceived to be high. Changes in regulations are also seen as an opportunity for introducing innovations to produce more efficient products and services (Figure 23).

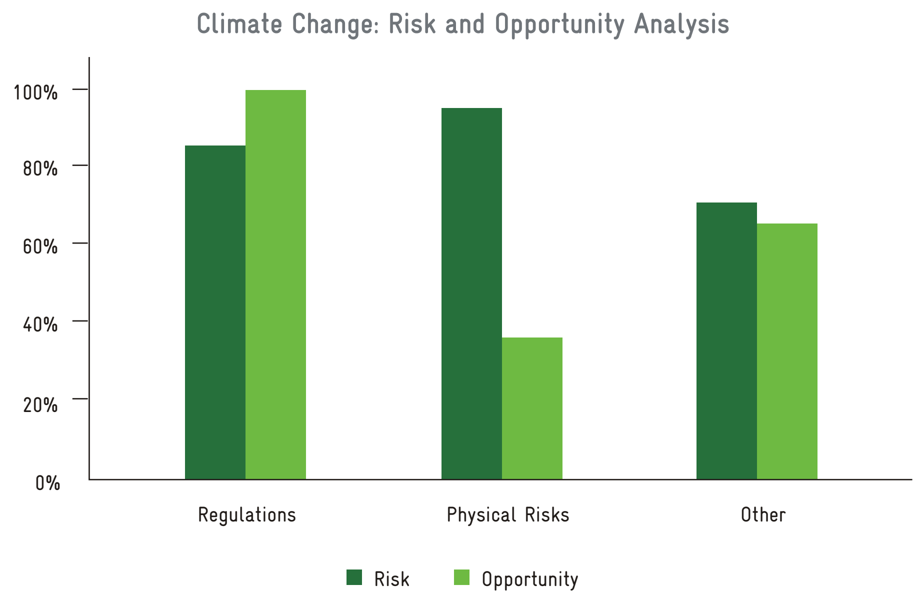


Figure 23: Linking of Climate Change to Business Risks and Opportunities

Risks from Changing Regulations

Risks from changing regulations are perceived to emanate from the commitment of the Government of India to a reduction in GHG emissions. This is, therefore, the most frequently cited risk arising out of change in regulations. Companies are wary of the imposition of new taxes or penalties for non- compliance. They foresee the impact of such regulations in their operations through a number of changes such as the need for new technologies and, therefore, an increase in the levels of investments, as well as an overhauling of channel partners and the way in which they do business. The changes in regulations are delineated in Figure 24. These measures would lead to an increase in the costs of operating businesses.

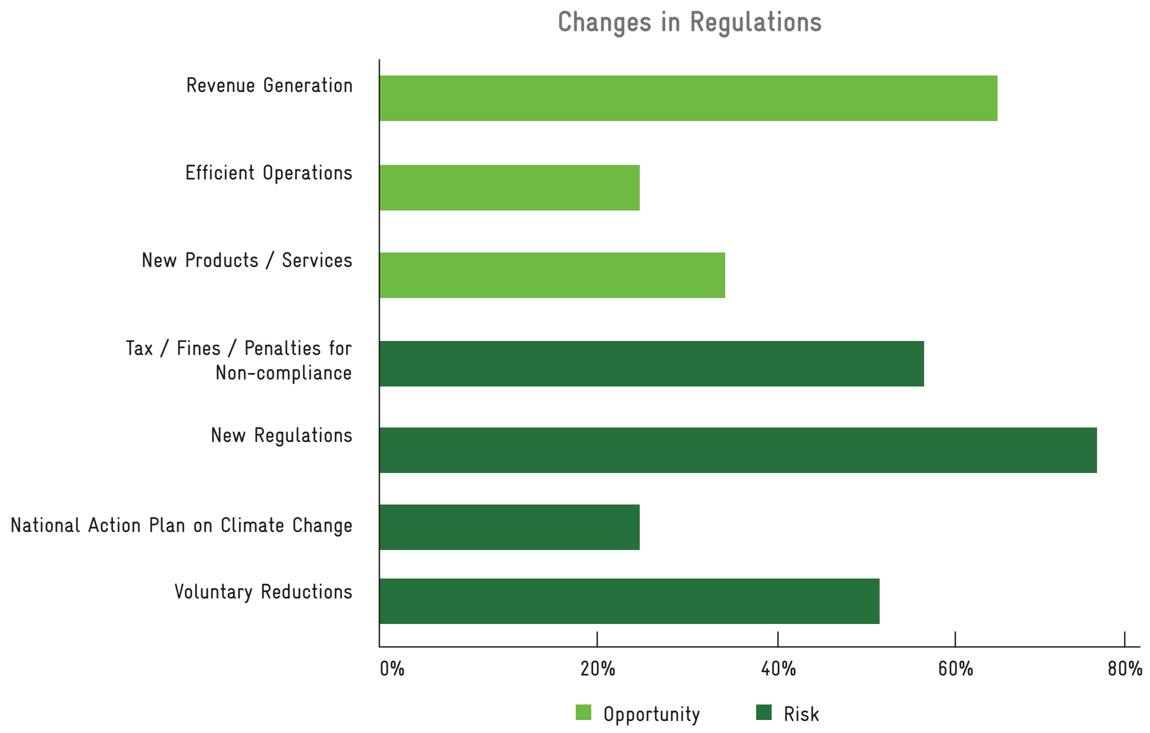


Figure 24: Impact of Changes in Regulations on Company Operations

However, companies also see the linkage between a reduction in emissions and cleaner processes with efficient operations, thereby developing a business case for mitigating climate change risks. Further, companies see opportunities for new products and services, which abide by changing emission and efficiency norms. Revenue generation opportunities are also seen as arising out of the Clean Development Mechanism (CDM)[27] and other support measures for clean technologies, leading to the introduction of new products.

Risks from the Physical Parameters of Climate Change

Changes in physical parameters of final products or the manufacturing processes of companies (depicted in Figure 25) are expected to lead to a disruption in company operations. Indian companies regard this as both an opportunity and a risk. From an economic standpoint, these changes could adversely impact companies and their employees, vendors and suppliers, as well as customers. However, these changes also throw up new product and services opportunities, as globally, people become conscious of their carbon footprints and start realizing the need for newer and safer products and services that are at least carbon-neutral.

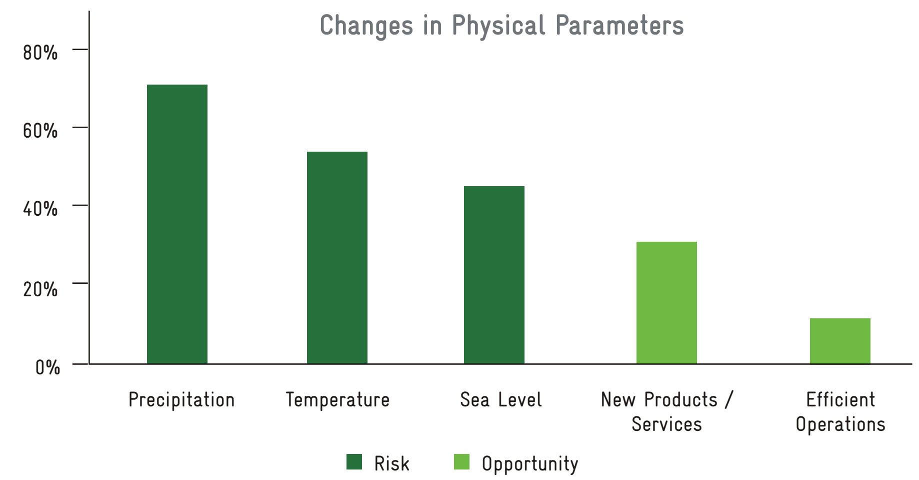


Figure 25: Changes in Physical Parameters or Manufacturing Processes of Companies

Other Risks from Climate Change

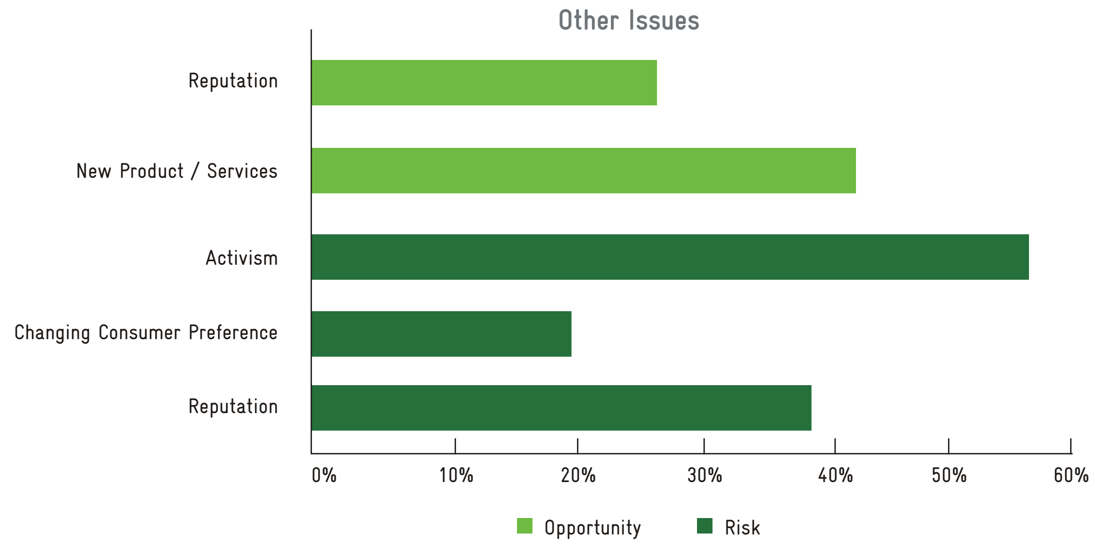


Figure 26: Other Risks and Opportunities from Climate Change Faced by Companies

Industry realizes that with increasing awareness on climate change and sustainability issues, customer preferences and investor expectations are bound to shift. This shift has the potential to disrupt current businesses while also throwing up opportunities for innovation and adaptation.

Indian industry has thus woken up to the challenge of climate change. Across sustainability frameworks, the most cited risk and material factor for sustainability has been related to the environment. However, the focus of company managements on this issue is limited, as is evident from the MD&A data on climate change/sustainability. The other risks in this regard are listed in Figure 26.

Environmental Risks & Opportunities Emerging from Climate Change

- Climate change is identified as a source for business opportunity.
- Indian companies have also realized the value of adopting environment-friendly processes and business practices which is expected to ultimately lead to the introduction of more efficient processes.
- Companies are also identifying new/modified product and processes as business opportunities where the innovative potential of companies will have to be tapped to meet the changing expectations of investors, customers, regulators and other stakeholders.
- Changing regulations are seen as constituting a risk, which can lead to additional regulatory compliance requirements and can directly impact the functioning of organizations.
- Physical parameters leading to changes in precipitation and temperatures can have both a direct and an indirect impact but signify a matter of concern for all.
- Companies also see increasing activism as one of the emerging risks that would impact their adoption of environment-friendly business practices.
- Changing customer preferences and increased investor interest is seen as a driver for initiating climate change mitigation initiatives.

24 Adapting to Climate Change: Natural Resource Management and Vulnerability Reduction - Background Paper to the Task Force on Climate Change, Adaptation and Vulnerable Communities a joint effort of World Conservation Union (IUCN), Worldwatch Institute, International Institute for Sustainable Development (IISD) and Stockholm Environment Institute /Boston (SEI-B); http://www.iisd.org/pdf/2002/envsec_cc_bkgd_paper.pdf

25 Smil, Vaclav 1993 Global Ecology: Environmental Change and Social Flexibility: London Routledge, xiii

26 The Planning Commission is charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities. (http://planningcommission.nic.in)

27 The CDM allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, with each being equivalent to one tonne of CO2. These CERs can be traded and sold, and are used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol.

Chapter 9

Reporting on Performance Indicators- Social Indicators

This section analyses the disclosures on social performance indicators as per the GRI Framework. On social impact, the disclosure of companies on contractual employees is limited, and this issue needs to be improved.

Social initiatives offer resources to support the employees and community in which the organization operates. Performance indicators on social criteria serve to capture the success of social responsibility programmes.

Employees and Labour

The availability and retention of employees are considered to be among the highest risks to sustainability, as identified in the enterprise risk in the MD&A of the annual reports. Therefore, offering employees appropriate benefits and ensuring employee welfare would be one of the critical factors for business sustainability.

The following disclosure trends (indicated in Figure 27) are seen in this area:

- Most organizations disclose the benefits they offer to their employees which are also a part of the financial statements.
- There is now an increasing trend to also share benefits with part-time/temporary/contractual staff, which often form an indispensable part of the production value chain.

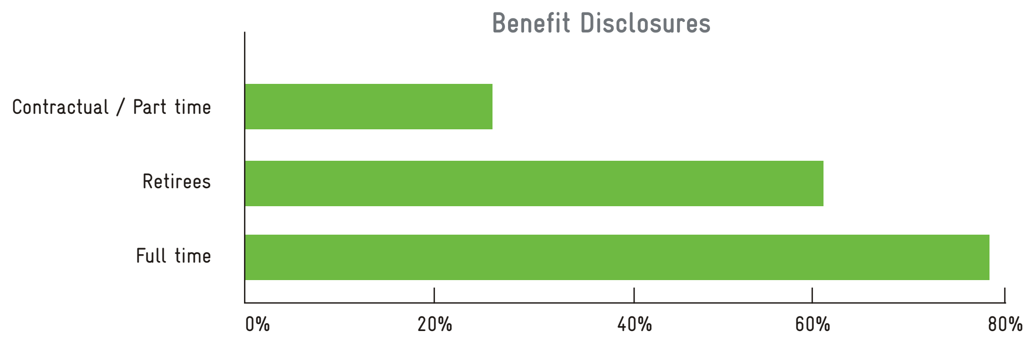


Figure 27: Disclosure Trends on Employee Benefits

Regular employee training on issues of organizational importance is essential for ensuring the efficient and meaningful implementation of sustainable initiatives. Training on Occupational Health and Safety by Indian companies has been an on-going practice, which includes employees as well as contractual part time staff. The trends observed in sustainability-related training (Figure 28) are as follows:

- Over 80 percent of the companies disclose their training initiatives in their sustainability reports, after having identified this as a material risk factor.
- Training on Occupational Health and Safety includes both employees and contractual staff.
- Training on sustainability is limited.
- Less than 40 per cent of the companies issuing sustainability reports actually disclose any information on training of employees on the issue of sustainability. This could prove to be one of the roadblocks in percolating sustainable business practice across the organisation.

Less than 40 per cent of the companies issuing sustainability reports actually disclose any information on training of employees on the issue of sustainability.

Figure 28: Issues Covered Under Staff Training Programmes

1. Labour Management Relations

Labour management relations constitute the key to smooth production and operations. One of the primary indicators of the nature of relations between the management and labour is the number of strikes and lock-outs that have impacted the operations of the company. Similarly, adequate notice for changes in operations signifies a collaborative

approach for facilitating better efficiencies and products. Although regulations under Clause 49 and the Companies Act necessitate Board intervention and appropriate disclosures on matters relating to labour issues, an analysis of the disclosures (as seen in Figure 29) reveals the following:

- Indian organizations have yet to mature in terms of making disclosures pertaining to labour management relations.
- Less than 25 percent of the companies disclose information on strikes and lock-outs or the absence of such incidents in the course of their operations.
- Similarly, disclosures on changeover times and other issues of labour productivity and engagements are made by less than 40 percent of the companies.

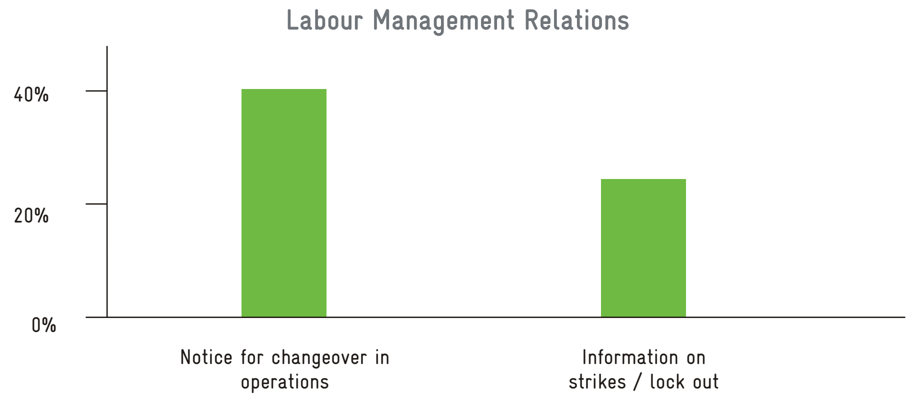


Figure 29: Disclosures on Labour Issues

The labour laws in India mandate agreements between labour and management and many of these working conditions are detailed and are significant in relation to the operations of a company. Therefore, while most companies would reveal information for the purposes of the statutory and financial reporting, disclosures and communication across the stakeholder community is limited.

2. Human Rights

Human rights approaches to sustainability have national and international implications. Various international treaties are now prioritizing the protection and promotion of human rights and several international assistance programmes are underway in this sphere. In this context, disclosures on human rights and the organization's approach to ensure its protection are essential.

The Government of India has put in place several legislative mechanisms to abolish child labour. However, child labour continues to be a matter of concern in several international trade-related discussions with India. Indian organizations have been making disclosures on certain aspects of human rights, including child labour. The disclosures (highlighted in Figure 30 indicate the following trends:

- Over 90 per cent of the companies make explicit statements of 'no child labour' while many companies have identified it as irrelevant in the context of their operations, which require special and evolved skills.
- Over 50 per cent of the companies disclose details of grievance redress mechanisms related to human rights.
- Extending beyond firm boundaries, 60 per cent of the companies disclose changes on contracts made to include a policy on human rights and its protection.

Human Rights Disclosures

Figure 30: Disclosures Pertaining to Human Rights

- The sensitization of vendors and channel partners on human rights is not reported by 85 percent of the companies, leaving out a significant stakeholder, who is integral to achieving the corporation's sustainability objectives. This has the potential to impact the operations of the company as customers; users and civil society are becoming increasingly vigilant on this issue.
- Indian companies need to report more on their complaint redressing mechanisms and their initiatives in integrating value chain partners for protecting human rights. Currently, only 50 percent of the companies have an explicit disclosure on this element.

3. Local Communities

Reporting on social performance requires organizations to disclose the impact they have on the communities affected by their operations and disclose how the risks that are identified through interactions with such social institutions are managed and mitigated.

Impact on Local Community

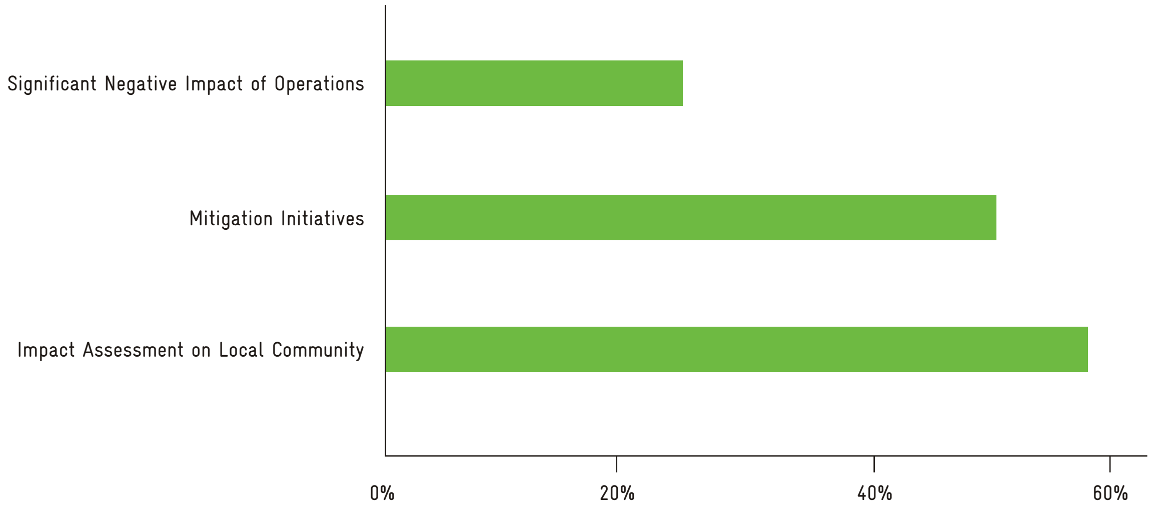


Figure 31: Disclosures on Impact on Community

Analysis of disclosure trends related to impact of communities show (Figure 31):

- Nearly 60% of the organizations disclose a specific assessment statement on impact of communities

- Nearly half of the companies use their CSR initiatives to mitigate any impact of operations on local community.

- Nearly 25% of companies state their operations to have significant negative impact and articulate their plans to diffuse such impact.

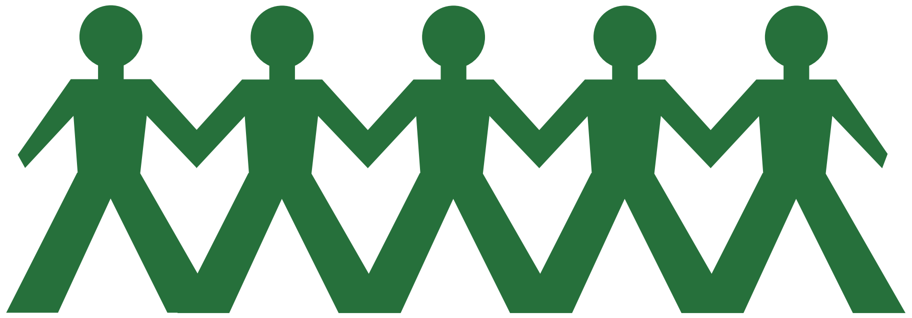
IT companies usually state that their operations have no/minimum negative impact on local communities. Reporting on CSR projects in India is prevalent even amongst companies who do not have a separate sustainability report. However, data and information is limited for most companies, whether they report under GRI guidelines or separately on their CSR activities. These reports normally do not create linkages of such activities with their operations.

However, companies with sustainability reports are incorporating greater rigour in their disclosures of CSR initiatives and community interactions.

Reporting Trends on Performance Indicators - Social

- The integration of company's HR practices with long term sustainability goals is evident from the disclosures. This is seen in their disclosures related to human rights, specially related to child labour, which has been a matter of concern globally.

- Indian companies are upfront in their disclosures on no child labour policy and are also beginning to incorporate these principles with their channel partners. Similarly, for employee safety, organisations are detailing their extensive training programs and its scope is expanding to include contractual and temporary staff.



Chapter 10

Reporting on Performance Indicators- Governance Indicators

Disclosures related to corporate governance in India are mandatory listing requirements. This section studies disclosures on the basis of Clause 49 of the listing agreement. Disclosures on independence of directors see full compliance. However, disclosures on whistle-blower policy and addressing minority shareholder grievance are yet to see 100 percent compliance.

Corporate governance mechanisms are embedded in a company with the intent of facilitating better governance in the company, leading to improved stakeholder value. It requires a firm commitment to adopt ethical practices across the entire value chain. Various processes need to be introduced and constantly analysed for ensuring adequate checks and balances.

Corporate governance in India gained prominence in the wake of liberalization in the early 1990s by the voluntary adoption of governance norms by some private sector companies, led by technology companies. These companies were rewarded well at Indian stock exchanges as they were perceived to be well-governed. Corporate governance is one area wherein legislation or regulations have followed market-led initiatives and to that extent, they signify a reflection of demand-based regulatory response.

The form in which corporate governance norms have been introduced in the Indian context has changed over time. Initially, corporate governance was introduced as a voluntary measure to be adopted by members of the industry association, the Confederation of Indian Industry (CII), which soon acquired a mandatory status through Clause 49 of the Listing Agreement, as all companies listed on stock exchanges were required to comply with these norms in a phased manner. In parallel, some corporate governance norms are being consolidated into the Companies Act, 1956. In late 2009, the Ministry of Corporate Affairs released a set of voluntary guidelines for corporate governance, which address myriad corporate governance issues.

These voluntary guidelines mark a reversal of the earlier approach, whereby there has been a preference to revert to a voluntary approach, as opposed to a more mandatory approach that had become prevalent in the form of Clause 49.

Corporate governance and enforcement mechanisms are closely linked, forming an integrated framework of linkages to protect the interest of all stakeholders. Stock exchanges and the capital market regulators are powerful agents for instilling good governance, especially in a country like India, where capital markets are still being transformed because the threat of de-listing equips stock exchanges with the ability to compel compliance.

Corporate Corruption and Compliances

Transparency International[28] defines Corruption as 'the abuse of entrusted power for private gain' and covers individuals in the public or private sector. The GRI framework includes reporting on corrupt practices such as bribery, fraud, extortion, collusion, conflict of interest, and money laundering. These activities are liable to result in an improper and illegal advantage to a business and adversely affect all pillars of the society and stakeholders.

Fighting corruption is a core issue in governance both at a country and organizational level and our analysis (Figure 32) show:

- Over 80% of the organisations in their sustainability report disclose their commitment to anti-corruption principles. Details are usually contained in the organizations' code of conduct. This assertion is also reiterated in their annual reports.
- 60% of the organizations disclose information on training in anti-corruption practices.
- Only half of the companies have disclosed explicitly that they are not affected by corrupt business practices. The rest have been passive in making such assertion.

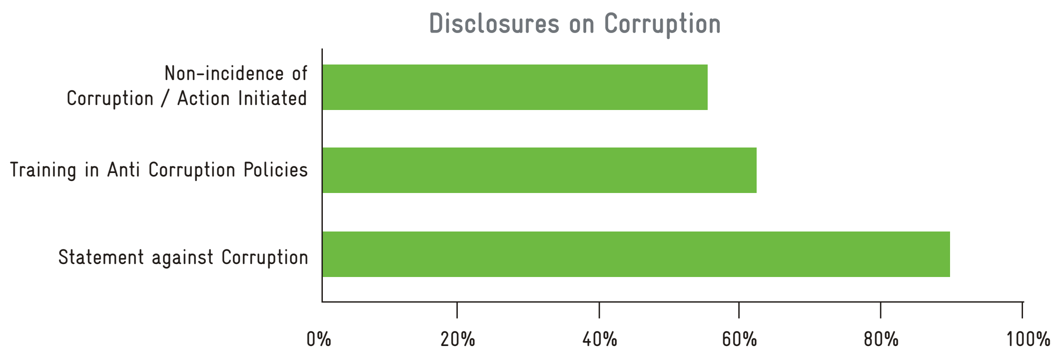


Figure 32: Disclosures on Corruption

The analysis of guidelines on ethics and code of conduct of the companies revealed that they are often applicable to senior management. Such companies should consider extending the scope of the ethical guidelines to all employees.

Our analysis of disclosures on whistle-blower policy in the annual reports reveals that most companies by and large have a policy, which is currently voluntary in India for listed companies and those without a policy have made a statement of intent to formulate a policy in the near future.

Most Indian companies have not been making the distinction between their non-binding and voluntary initiatives in this area with those that need mandatory compliance. However, companies have a statement on compliances with regulations and the details of material liabilities that may arise from litigations with authorities due to non-compliances are disclosed in the financial statements.

We have analysed corporate governance submissions made by 1462 listed entities on the National Stock Exchange for the quarter ended June 2011 in order to examine their adherence to corporate governance norms. We found that only 7 per cent of the companies did not comply completely with prescribed regulations.[29] *This analysis was limited to only an examination of whether companies had declared adherence to prescribed corporate governance mechanisms and did not cover an examination of the quality of such mechanisms or the benefit of such mechanisms accruing to individual companies.*

Disclosures on Governance Indicators

- The mandatory requirement for disclosures on corporate governance has ensured a greater degree of compliance by Indian corporates as against disclosures related to sustainable business practices.
- Fighting corruption is emerging as a core issue and companies are increasingly forthcoming in their commitment to anti-corruption principles.
- Some companies do not have a separate whistle-blower policy and are in the process of establishing it.
- The policy on ethics usually assumes the form of a code of conduct that is applicable to senior management.

28 Transparency International, the global civil society organisation leading the fight against corruption, brings people together in a powerful worldwide coalition to end the devastating impact of corruption on men, women and children around the world.
TI's mission is to create change towards a world free of corruption. Established in 1993 it is a global network including more than 90 locally established national chapters and chapters-in-formation. These bodies fight corruption in the national arena in a number of ways. http://www.transparency.org/about_us

29 Study on the state of corporate governance in India, joint report by IICA, TARI and IIM Calcutta; http://www.iica.in/images/SEBI.pdf

A dedicated sustainability report is a reflection of the company's commitment to the issue of sustainability, which helps companies and their stakeholders identify a comprehensive reference point for reporting, thereby aligning many of their CSR initiatives with goals that can be measured and monitored.

Chapter 11

Analysis of Sustainability Disclosures in Annual Reports

This section analyses the disclosures in annual reports made by companies that do not have separate sustainability reports, and how they are integrating the core concepts of sustainability in their businesses. Employees and their welfare are important to most companies.

The introduction of environment-friendly initiatives is also reported as a part of the Director's report. Companies do not normally make a distinction between corporate philanthropy and CSR activities in their disclosures. However, the disclosures are not rigorous and, therefore, cannot be monitored for performance efficacy and impact.

Information on sustainability indicators in annual reports, CSR reports and websites is aggregated and reviewed for companies that do not publish separate sustainability reports. A dedicated sustainability report is a reflection of the company's commitment to the issue of sustainability, which helps companies and their stakeholders identify a comprehensive reference point for reporting, thereby aligning many of their CSR initiatives with goals that can be measured and monitored.

Disclosures in the annual report pertaining to sustainability factors are scattered throughout the report. Except for the information that is either audited like the financial statements or a director's report and other disclosures that create third party liabilities for the company and its management, the rest of the disclosures do not have the rigour of verification of their processes. It is difficult to determine the reliability of this level of information and hence the conclusions are taken prima facie.

For the purpose of the analysis, we have focused on the MD&A and Director's Reports and disclosures on climate change and sustainability factors like Environment and Social indicators therein. Figure 33 shows that:

- Over 80 percent of the companies refer to employee welfare as one of their key factors for business success and the director's report normally has a brief narrative on employees as a part of the report.

- Nearly 70 percent of the companies disclose their environmental initiatives. The Indian Companies Act specifically requires information in the context of energy conservation in the Director's Report, which probably leads to prioritization of environment initiatives as an important factor.

- Less than 50 percent of the companies disclose or discuss the social impact of their operations and their initiatives therein but companies disclose acts of philanthropy as a part of their social responsibilities, even if they are not aligned to their overall business objectives.

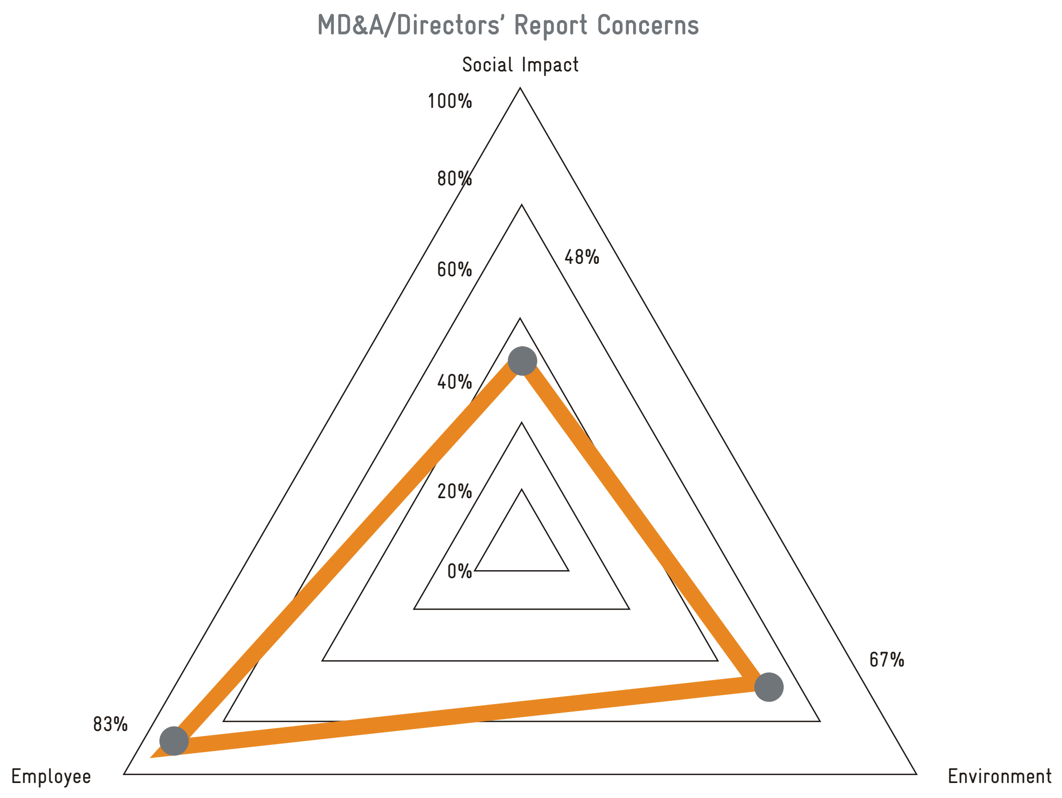


Figure 33: Disclosures made in the MD&A and Directors' Reports

This is in contrast to companies that have separate sustainability reports and have identified environment-related issues as the top challenge, closely followed by factors concerning employees.

Climate Change and Environment Risks

There are several strategies for mitigating challenges related to climate change and environment degradation (as seen in Figure 34). In its guidelines on performance indicators on the environment, the GRI Reporting Framework lists various aspects around which companies can make disclosures.

These aspects from the Indicator Protocol set on Environment are:

1. Material
2. Energy
3. Water
4. Biodiversity
5. Emission, Effluents and Waste
6. Products and Services
7. Compliance
8. Transport

An analysis of company strategies to address environmental concerns reveals that companies adopt a multi-pronged approach, which is similar to the performance indicators in the GRI framework. The projects initiated are conceived and implemented with the objective of addressing the above aspects. The top five initiatives for addressing climate change related issues undertaken by companies are:

1. Conservation/reduction of energy consumption.
2. Recycling and responsible consumption behaviour.
3. Use of renewable energy.
4. Greening and plantation.
5. Sewage treatment and waste management.

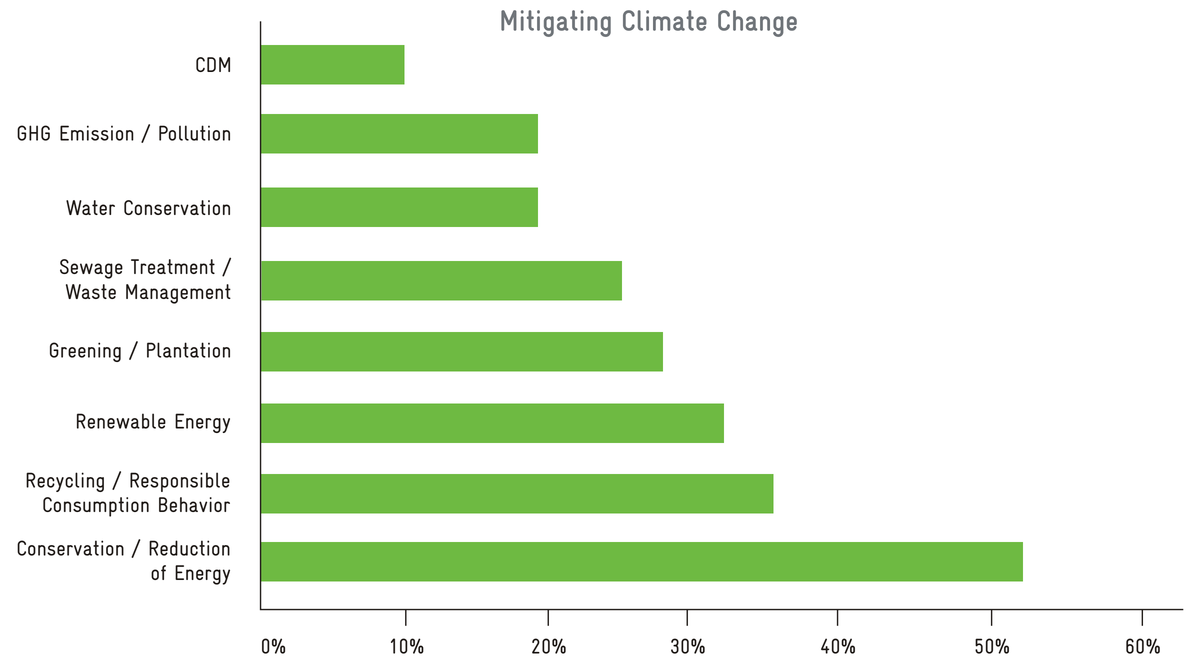


Figure 34: Strategies for Mitigating Climate Change Challenges

Employee Recruitment, Retention and Well-being

Companies implement several employee welfare and well-being activities in order to retain and attract capable employees (as seen in Figure 35).
Skill development and upgradation initiatives are most often undertaken by organizations for ensuring the well-being of their employees.

The top initiatives that Indian companies focus upon while addressing employee health and happiness are as follows:

- Skill development and upgradation.
- Rewards and recognition for performance and commitment, including schemes for stock options and other employee ownership plans.
- Leadership development.
- Ensuring employee health welfare through health check-ups and offering them better access to treatment as well as preventive care.

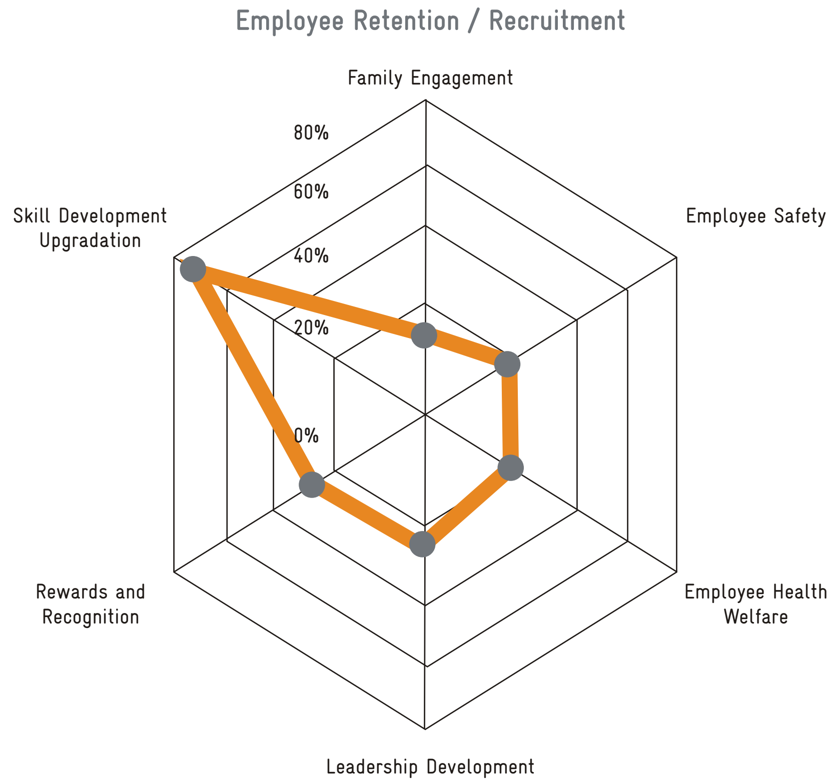


Figure 35: Activities for Promoting Employee Welfare and Well-being

- Promoting employee safety through improved workplace practices, designs and facilities.
- Engagement with the families of employees in the form of programmes and outings.

Corporate Social Responsibility

Indian companies that do not publish separate sustainability reports do not make a distinction between corporate philanthropy or charity, which are usually classified under Corporate Social Responsibility (CSR) and are not integrated within the overall strategy of a company. Hence, it is difficult to predict their continuity and success. The trends observed in various CSR initiatives undertaken by companies are indicated in Figure 36.

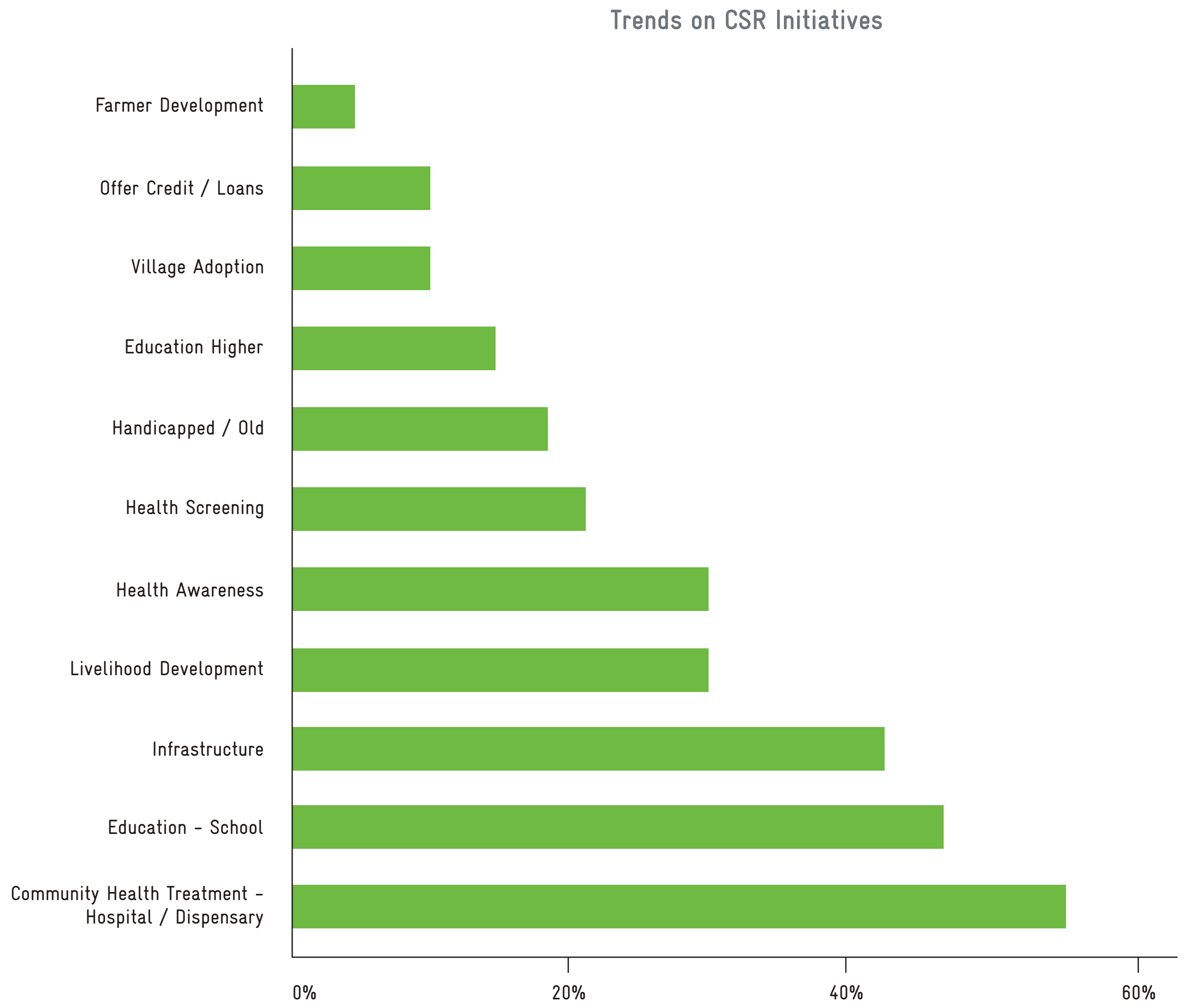


Figure 36: CSR Initiatives Undertaken by Indian Industry

The top five CSR initiatives undertaken by Indian industry are:

1. Community Health Treatment: Hospitals, dispensaries, and mobile clinics are set up to provide greater access to healthcare diagnostics and treatment.

2. School Education: Companies are not just setting up new schools, but also renovating existing schools, including the adoption of local schools to improve the facilities and quality of education imparted. The initiatives undertaken in this regard include the distribution of books, installation of lights and other similar facilitating activities.

3. Infrastructure: Companies are investing in building basic infrastructure like roads, and civil works like toilets and rest rooms in areas falling within their purview.

4. Livelihood Development: Companies are organising livelihood development programmes for the local people in consultation with them. They also nurture local livelihoods like stone and woodcraft, embroidery, etc. Many organizations have adopted training institutes and are upgrading and improving the existing training and development infrastructure for developing a higher skill base.

5. Awareness Building Programmes Pertaining to Health and Safety: Companies are organizing special awareness campaigns for the community on communicable and non-communicable diseases. Given the changing disease burden and prevalence of infections and chronic ailments, sensitization programmes are being organized to make the people aware of the symptoms and also to encourage them to seek treatment. Often, these are coupled with health check-up camps.

Summary of Sustainability Disclosures in Annual Report

- Employees and their welfare is the primary sustainability challenge identified in annual reports
- This is in contrast to environment related concerns of companies who have separate sustainability reports.
- Companies do not normally make a distinction between corporate philanthropy and CSR activities in their disclosures in annual reports.
- Sustainability disclosures in annual reports are not rigorous and, therefore, cannot be monitored for performance efficacy and impact.

Chapter 12

Perspectives from Primary Consultations

Primary consultations were held with companies to understand their perspective on sustainability reporting. The consultations covered companies that have sustainability reports as well as those that do not have separate disclosures for sustainability. It was found that companies are aware of sustainability as a concept and its emerging importance in business.

Top Management Awareness and Involvement in Business Sustainability Initiatives

All companies, whether reporting or non-reporting, are aware of business sustainability as a concept, and realize that in the near future, it will be essential to report on the performance indicators with reliable and comparable measures. The key and relevant performance indicators would be decided by the companies on the basis of their operations and priorities. An event that could trigger an early adoption of reporting could be the intervention of the Government of India mandating ESG reporting. For example, SEBI's decision to mandate the top 100 companies of the Bombay Stock Exchange to follow the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business is likely to accelerate this process.

The other factor that could bring about a change in the number of reporting companies would be if investors and lenders consider sustainability concerns as the key in their investment decisions. In India, unlike in the Western countries, financial services do not form a large section of the reporting universe.

There is a difference in awareness levels between the reporting and non-reporting companies. However, non-reporting companies have expressed the need for access to more information and greater clarity on the scope of such reports. They have also expressed apprehension at the excessive detailing that could hamper current operations.

The direct involvement of the top management in sustainability initiatives is often limited to periodic reviews during board meetings. The focus of sustainability issues normally lies outside of the board room agenda for most companies and hence does not become a strategic risk that falls under the key focus of the board. The teams responsible for business sustainability initiatives feel that this is a limitation and that they require more information on sustainable business practices, which are also cross-functional.

However, some companies have strategized that they would consider ESG issues and make investments only on the parameters that have a direct correlation with the core of their business.

Preparedness for Sustainability Reporting and Stakeholder Engagement

Companies with sustainability reports have unanimously agreed that the exercise has offered new insight into improvement of own processes, growth opportunities and savings. The measuring and monitoring process has been helpful in creating a value from the ESG practices through the adoption of a focused approach and objectives. The communication protocols help the top management align and include stakeholders, thereby offering a potential to enhance the company image.

Companies that have been reporting for 1-2 years feel that the processes required for measuring and monitoring impact take time to set up and mature. Organizations need to be patient with the progress and implementation of sustainable practices, and benefits should be expected only after the processes have matured.

Companies that do not have separate report on sustainability and have not initiated the processes, perceive reporting on the multiple performance indicators as an onerous task. They prefer to scope their reporting such that during the initial years, there are limited disclosures based on existing processes and practices, as they adapt and introduce sustainable business processes to measure and monitor the remaining performance indicators. Companies that have initiated the process for reporting on sustainability also seem to prefer a phase-wise approach, and the careful scoping of reporting parameters.

The influence of stakeholder interaction on the companies' prioritization of sustainability initiatives is, however, not clear from these interactions. Most companies feel that stakeholder awareness on sustainability is low. This is applicable to suppliers, vendors and sometimes even employees from different functional teams. Therefore, most stakeholder engagement involves sensitization and awareness-building.

The key reasons that stimulate reporting as revealed through our primary consultations include:

- Setting achievable targets and an enhanced ability to track progress;

- A clear organizational message and strategy towards achieving sustainability milestones;
- Ownership at the board level which ensures that sustainability does not exist in a silo;
- Reputational benefits; and
- Cost savings to the extent that sustainability helps in improving processes.

At the same time, companies that are not reporting have their reasons for not doing so, some of which are:

- Uncertainty about the cost benefits from reporting on current sustainability initiatives;
- Perception of extra costs involved in preparing sustainability reports;
- Non-adoption of sustainability by peers;
- The apprehension that reporting may attract undue regulatory attention and possible punitive action; and
- Lack of awareness about reporting frameworks and the steep learning curve.

Perspectives from Primary Consultations

- Companies have expressed the need for access to more information and assistance in developing their strategies for sustainability.
- Many companies rely on outside experts for this purpose and hence perceive a bottleneck in integration of sustainability initiatives with company operations.
- Companies find it difficult to justify investments in sustainability initiatives as the results and paybacks are not immediate.
- This sometimes leads to a dilution of management focus and resource allocation.

Both reporting as well as non-reporting companies have generally accepted the possibility of sustainability reporting becoming mandatory in the future across all publicly traded enterprises as also of the need to put together a process that is relevant for the business, its sector and its stakeholder.

Chapter 13

Future of Sustainability Reporting in India

Reporting is likely to become increasingly important judging from the emerging trends and industry and government action. In this section, the challenges of planning and implementation of sustainability is discussed and measures to address them are proposed as the way forward. Role of stakeholders is important and they will set the trajectory of sustainability and development through their actions.

Future of Sustainability Reporting in India: Challenges and Way Forward

Reporting Challenges

Both reporting as well as non-reporting companies have generally accepted the possibility of sustainability reporting becoming mandatory in the future across all publicly traded enterprises as also of the need to put together a reporting mechanism that is relevant for both the company and its industry sector. This is based on our interactions with company executives. It was felt that this can happen because of requirements from the stock exchange or regulation etc., mandating reporting or identifying it as a best practice and requiring non-reporting companies to explain. Further, activism is likely to add extra pressure on companies to disclose their sustainability performance indicators. The various policy initiatives in India by the Ministry of Corporate Affairs and the Department of Public Enterprise, board resolution of SEBI, the market regulator in India, introduction of Carbon Indexing project by BSE and the current S&P ESG index of NSE underline the importance of not only measuring and monitoring performance on ESG areas but also makes disclosures central to the efforts. Therefore, reporting is expected to become increasingly important and should be seen as a strategic initiative.

Interest of Investors

Companies are uncertain about the interest prevalent among Indian investors in the use of sustainable business practices for decision-making. Some companies feel that foreign investors and customers have an interest in sustainability report and initiatives. However, some of the investor relations heads of a few of the largest Indian companies claim that during the last few years, global investors and analysts have shown active interest in sustainability parameters. The emergence of a financial services industry and acceptance of sustainability metrics among the investor community for taking investment decisions is a global phenomenon and focusing on this area is the key for the accelerated adoption of sustainability reporting. Both reporting and non-reporting companies have identified numerous challenges within the organization that impact the implementation of sustainable initiatives. The need is the creation of awareness on both sides, the investors and the investees on the opportunities and risks of absence and disclosure of environmental, social, economical and governance aspects. Harmonisation of the needs to disclosure could follow the global and national alignment of frameworks for credible and incremental information availability for better decision making in the short and long term context.

> The emergence of a financial services industry and acceptance of sustainability metrics among the investor community for taking investment decisions is a global phenomenon and focusing on this area is the key for the accelerated adoption of sustainability reporting.

Quantifying Qualitative Measures Leading to Progress

A fundamental challenge in sustainability reporting stems from the need to quantify qualitative measures. Environmental and social impact assessments and measurement of the return on sustainability initiatives are presently in a nascent stage, which affects the quality of sustainability reporting. Most sustainability reports lack information on impact indicators developed by the GRI Guidelines. Businesses had been reporting only on the performance indicators and satisfying the Application level check of GRI. Interestingly, the GRI Guidelines does have set of impact based indicators which are most often seen to be neglected. This has led to the continuous 'missed opportunity' of identifying the real impact of performance on natural, social and human capital of a region or country in a collective manner. The impact based indicators can also help organisations to assess its both positive and negative footprints on triple bottom line. The need could be stakeholder demands and expectations on impact based indicators could push the agenda within businesses to report on them too. Many businesses expressed that , the link between sustainability and financial indicators is difficult to establish. The research attempted to analyse the financial ratios of reporting and non-reporting companies in the eight sectors under study but could not find any conclusive evidence to support the assertion that companies reporting on sustainability perform better financially than those which do not. The link between the two parameters is, at best, tenuous. However the statements from the top executives signing off the sustainability reports almost always expressed how the process of reporting has helped them with revelation of small and big risks and opportunities, reflection of their management strategy and build in a road map for incremental improvements and stakeholder trust.

Information, Methodology and Reporting Processes—Need for Capacity Building

Due to the unavailability of adequate information, as also insufficient processes and controls, coupled with the lack of understanding of such a framework within the organization, many companies outsource reporting to an external agency. Further, unlike

the case of financial reporting, the disclosure of sustainability metrics to the market is largely unregulated. However, with CR and sustainability issues rapidly becoming key elements of the business environment, organizations need to build a comprehensive framework of CR processes, information systems, controls and governance on par with the existing processes used to support financial reporting. In many cases, the HR, CSR, EHS or Corporate Communications department of the organization is made responsible for the report, as a result of which sustainability reporting often lacks the key management focus. It has also been observed that the organizational department overseeing sustainability issues is often not empowered enough to make the requisite changes in the reporting processes. These challenges not only affect the quality of the report but also make the task of preparing it tedious and time-consuming. Indian corporations can learn from other foreign corporates who have established sustainability taskforces consisting of members of different departments throughout the organization (such as HR, communications, investor relations). Also the five smart steps of the reporting process as provided by GRI Guidelines – Prepare, Connect, Define, Monitor, Report – are almost never followed by businesses, making the sustainability reporting process often a cumbersome activity with heavy financial burden and dependency on external consultants. Capacity building on reporting process is need of the hour in India.

Sustainability as a Part of the Board Agenda

All companies have unanimously agreed that without the active involvement of the board and top management, sustainable business practices cannot be implemented in letter and spirit. This challenge is not unique to India; the 2011 KPMG International Survey on CSR Reporting[30] reveals that half the global companies that make their sustainability reports public do not disclose the identity of the board member responsible for such reporting, or they possibly do not have such a member.

The Future – Way Forward

Insights gained during the course of the study involving extensive interactions with corporates, both reporting and non-reporting, as well as analysis of disclosures in public domain have helped us identify several issues that need attention and action (Figure 37).

Information Needs	Role of Stakeholders	Industry Commitment
• Increasing Awareness • Reporting Framework for Local Conditions	• Government • Civil Society • Investors	• Capacity Building • Raising Credibility of Data

Figure 37: Issues and Recommended Actionables

Information Needs and Awareness

Sustainability reporting in India is still in its early stage, with only a limited number of organisations exhibiting a continued commitment over the last 3 years for disclosures. While more and more organisations are starting to disclose their performance on ESG parameters, in their annual report, websites and in some cases separate reports, there are several information gaps that have to be addressed.

Increasing Awareness

Corporates do not always integrate sustainability in their operations with the rigour desired for effective and tangible benefits. Bottlenecks in implementation of sustainability initiatives identified by the industry can be effectively handled through increased awareness and understanding.

There is increasing trend of companies identifying sustainability initiatives as a likely source of increased efficiencies and the recognition of the need to adopt reporting practices to be able to measure, monitor and be accountable for sustainable operations.

Awareness building initiatives need to be undertaken for various stakeholder communities, both at the firm level as well as sector level. This would lead to useful stakeholder engagement and strategic commitment of the top management, making sustainability an imperative and ensuring reliable and transparent disclosures

Need for Reporting Guidelines in Line with Local Conditions

Many companies are writing their first or second sustainability reports and perceive the need for a simple and phased approach to disclosures, which are sensitive to local conditions. The GRI framework is a globally acceptable voluntary framework while the guidelines issued by the Ministry of Corporate Affairs are expected to fill the gap of India-specific reporting framework, including the resource constrained Small and Medium Enterprise (SMEs) sector. While the GRI Reporting Guidelines have been developed after considerable stakeholder consultation, actual implementation is likely to unveil challenges requiring swift answers.

It is therefore important that reporting companies in India share their experiences and provide feedback on the sustainability reporting process based on globally acceptable framework like GRI's and the principles outlined in NVGs to partner in the development of a robust sustainability reporting framework with provisions to address country specific conditions.

Role of Stakeholders

Various stakeholders have diverse roles and responsibilities in shaping a company's sustainability journey and only a collaborative approach can ensure success of such initiatives.

Government

The Government of India has been actively promoting the concept of sustainability in business through its policy initiatives including guidelines for responsible business encompassing environmental and social criteria. Further, the Central Public Sector Enterprises have been mandated to set aside a portion of their profit for CSR activity that is planned and implemented by specialists. The IICA has been proactive in conducting consultations with industry stakeholders on sustainable business practises and how they can be encouraged through government policy and legislative mechanism.

The recently tabled Company's Bill 2011 has furthered the cause of responsible business and has several provisions to ensure protection of community and stakeholders through rigorous legislations.

The government can be a catalyst for ensuring speedy adoption of sustainability through policy initiatives, as it has been doing and also by creating centres for research and understanding of business sustainability and what it entails for organisations. The government can also expand the scope of the guidelines to extend to Civil Society and Government Departments and pave the way for a sustainable society committed to sustainable development.

Civil Society

It is well accepted that the competitiveness of a company and the well-being of the communities around it are inseparable. A successful community creates demand for products and also provides public assets and a supportive environment to businesses. Similarly, jobs and opportunities for wealth creation are offered by successful businesses to the communities.

Civil societies in the past have often assumed that trade-offs between economic and social benefits are a win-lose proposition and often resolution of such trade-offs leads to confrontation.

While confrontational approach may have its impact, focusing on measuring environmental impact and performance, developing standards and support for

technology to improve environment can enhance shared value i.e. boost competitiveness of the industry and also well-being of the community. Civil society can become partners in creating such shared value. Several examples are available globally and the understanding and proximity of civil society to the issues of the community can ensure effective planning and implementation for sustainable business practices.

Companies have often identified activism both as a risk factor and a driver for their sustainability efforts to protect brand value and reputation. Civil society and business organisations have to adopt a collaborative approach towards sustainability.

Investors

Good quality disclosure of the material ESG risks and opportunities faced by a company and its strategies for addressing these is a crucial component of good investment decision making, enabling the investor to understand the governance and risk management of the companies in which they invest. One of the principles of the UN Principles of Responsible Investing (PRI) is "we will seek appropriate disclosure on ESG issues by the entities in which we invest". This enables capital flows to move towards better managed companies and provides investors with the relevant information to challenge the company should these issues not be adequately addressed.

In 2007, TERI Europe conducted a study on how Indian companies deal with ESG issues. The key findings were:

- Only 72 Indian companies measure up to the qualifying levels of sustainability standards set up by California Public Employees' Retirement System (CalPERS) for their investments.
- Majority of Indian companies are not well represented in global sustainability funds as they are unable to maintain the quality of systems, information requirements and business processes required to be included by such investors.
- India lags behind other emerging markets like Brazil in terms of attracting sustainable investments and building domestic market for such initiatives.

In 2008, International Finance Corporation (IFC), Credit Rating Information Services of India Limited (CRISIL)/Standard & Poor (S&P) and KLD Research & Analytics launched the first investible index of companies which have sustainability as their core business strategy and performance measurement matrix. The index gives fund managers choices for investment and is expected to create and enhance ESG focus of investible companies.

Majority of Indian companies are not well represented in global sustainability funds as they are unable to maintain the quality of systems, information requirements and business processes required to be included by such investors.

IDFC is the only Indian fund which is a signatory to PRI, which indicates that the level of importance that Indian funds put on ESG parameters in relation to their investment decisions is still at a nascent stage. However, the focus on responsible investing is gaining momentum; National Stock Exchange (NSE) is running programmes targeted towards responsible business investment in India on the lines of PRI for the attention of large overseas funds and investors.

An effective way to highlight the concept of ESG is by linking stock market performance to ESG. The S&P ESG India index of the National Stock Exchange (NSE) quantifies a company's ESG practices and translates them into a scoring system used to rank each company against their peers in the Indian market. A concept note of BSE Carbon Indexing project was circulated as an initiative of BSE, a leading Indian stock exchange, to develop capability to analyse risks and opportunities associated with climate change and carbon regulation and to make information available to investors. BSE has now moved on to launch BSE GREENEX, an environmental friendly equity index, which will enable investors take more informed decisions in the green theme of India. BSE in association with gTrade (supported by GIZ promoted by Germany, Observer Research Foundation and IIM Ahmedabad) designed BSE-Greenex specifically to promote green investing, with emphasis on financial performance and long-term viability of companies.

Though the focus on ESG is in its early stages for funds focussed on India, their involvement is critical in making markets accept ESG as a key measurement parameter for investment decisions. Some of the recommendations for greater involvement of investors are:

- India can bring in a paradigm shift in its mix of investors and their long term investment strategies , by focussing on these investors and making Indian markets conducive to such investments.
- Encourage stock exchanges and funds to become members of PRI and promote focus on responsible investment
- Stock exchanges or trade associations could develop programmes to include CEOs and owners of Indian companies to be aware and focussed on the opportunities, risks, threats and strategies to deal with ESG issues
- Raise the awareness of ESG issues amongst the retail investors

Industry Commitment

Industry has to demonstrate a long term commitment both at a strategic and operational level to sustainable business practices. This is essential for them to realise the potential benefits as they refine their business processes and metrics for performance measurement and success. Industry needs to focus on capability building and ensuring data integrity to effectively adopt and implement sustainability practices.

Capability Building

Companies acutely feel the paucity of both in-house and external expertise that can help unravel the challenge of business sustainability by establishing processes for impact assessment and risk mitigation. This is proving to be a hindrance for effective implementation across an organisation and realising the benefits of sustainability.

There is an urgent need to develop in-house capabilities to assess impact of operations in an objective manner, and measure and monitor such capabilities, as mitigation strategies are implemented. In the coming years educational institutions are expected to tailor their programmes to include sustainability as a discipline; however, as it was with information technology, sustainability is largely industry-led and India should focus on industry-university linkages to develop an institutionalised knowledge base.

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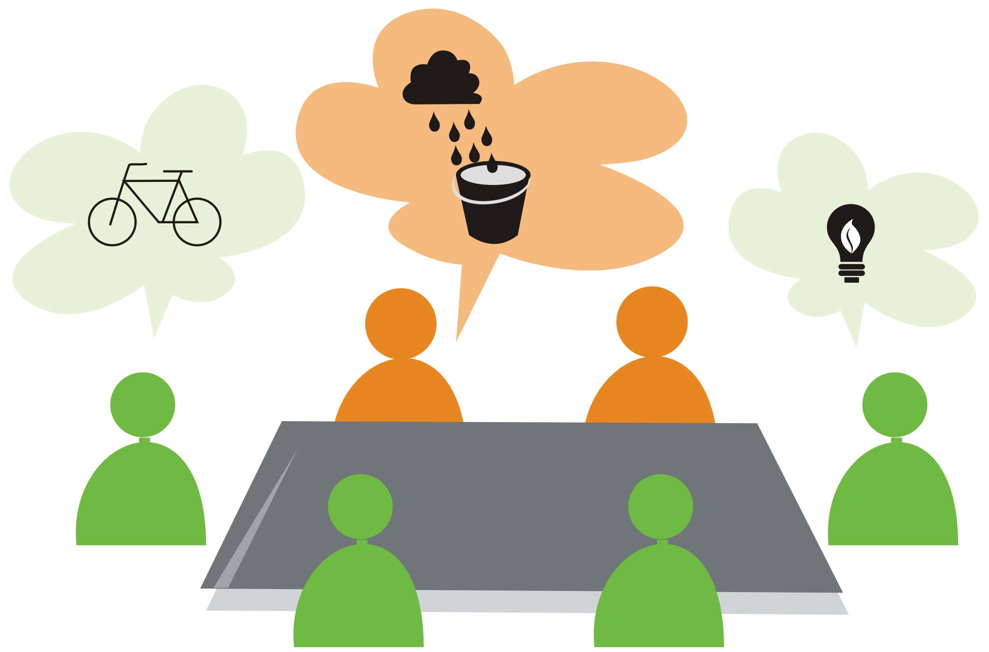


The Government can also play a proactive role in capability building by creating centres of excellence in business sustainability and making funds available for research which can reflect the true status of sustainability reporting and disclosure in the country.

Raising Credibility of Disclosures

A recent study conducted by Leeds University with Euromed (France)[31] has observed several discrepancies and bizarre data in the sustainability disclosures by leading corporates recognised widely for their CSR and sustainability initiatives. It infers that most of the CSR rankings, ratings and surveys conducted "tend to largely focus on the question of whether companies report - not what they report". While the aspirations of the companies and strategies are communicated, there is little check on "whether this is where they are heading".

It is therefore important that processing of the quantitative information in sustainability disclosures be done with care and also that information disclosed is actually used for decision making since such data necessarily has to be credible. The increasing trend of third party assurances for GRI based sustainability reports is an indication of corporate commitment to improve the quality and reliability of disclosures. However, the rate of adoption of assurance is slow. Sustainability is all about transformation and corporates are slowly evolving their information processes to this new scheme of things.

Therefore, companies should work towards establishing robust processes and also ensure verification and assurance of data for increased credibility.

It can thus be concluded that sustainability reporting is still in a nascent stage among Indian companies, though in the coming years, particularly due to the regulatory impetus, we can expect to see a rise in the number of reporters and the reinforced belief among Indian businesses that sustainability is integral not only to the running of a successful business, but also to the society and the world that we live in.

'Whatever you do will be insignificant but it is very important that you do it'

– Mahatma Gandhi

30 KPMG International Survey of Corporate Responsibility Reporting 2011
http://www.kpmg.com/PT/pt/IssuesAndInsights/Documents/corporate-responsibility2011.pdf

31 http://www.leeds.ac.uk/news/article/2696/doing_good__or_just_talking_about_it

Sustainability reporting practices from companies in the BSE 200/NSE 200 in the identified eight sectors with a high contribution to the economy were evaluated as part of the plan.

The eight sectors that were studied are: Banking (Financial sector), IT, Power, Oil and Gas, Pharmaceuticals, Construction-related activities, Automotive, Metals and Minerals and Mining.

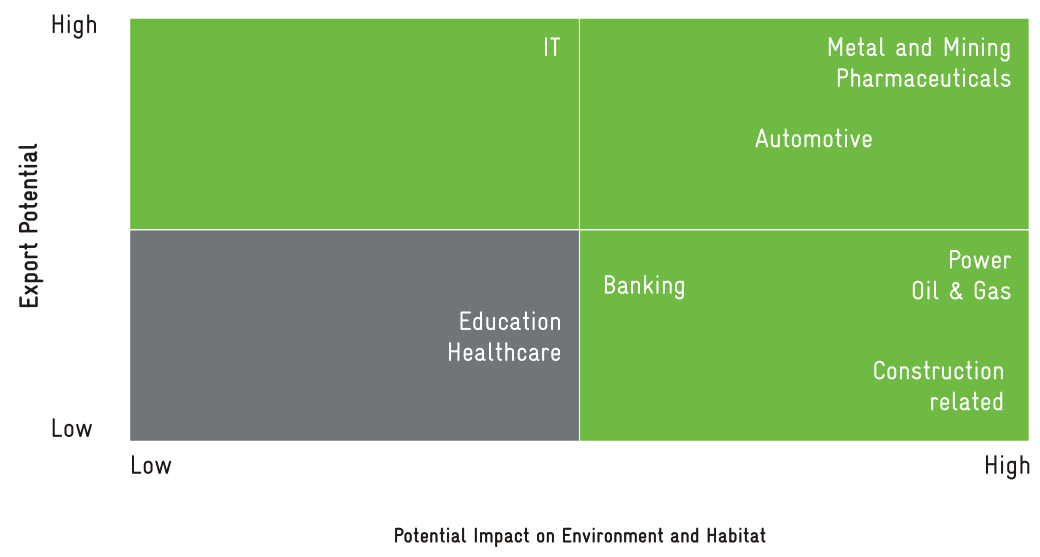
Chapter 14

Methodology and Model of the Study

This is a study of the trends and practices adopted for sustainability reporting by Indian corporate houses. In this section, information from primary and secondary sources has been compiled and disclosure trends have been analysed. This section also describes the study methodology and analysis framework.

Sampling Plan

Sustainability reporting practices from companies in the BSE 200/NSE 200 in the identified eight sectors with a high contribution to the economy were evaluated as part of the plan. The selection was based on two important criteria—the potential impact of the sectors concerned on the environment and habitat, and their export potential. Extensive secondary data analysis has also been conducted on the sample of listed companies in India.



Further, information from annual reports of companies, sustainability reports and their websites has been collated to establish disclosure and transparency trends. The eight sectors that were studied are: Banking (Financial sector), IT, Power, Oil and Gas, Pharmaceuticals, Construction-related activities, Automotive, Metals and Minerals and Mining. A total of 110 companies belonging to the eight sectors were evaluated for their disclosures. The secondary information sources were:

1. Annual reports: 110
2. Sustainability reports/disclosures (separate): 75
3. Websites: 110

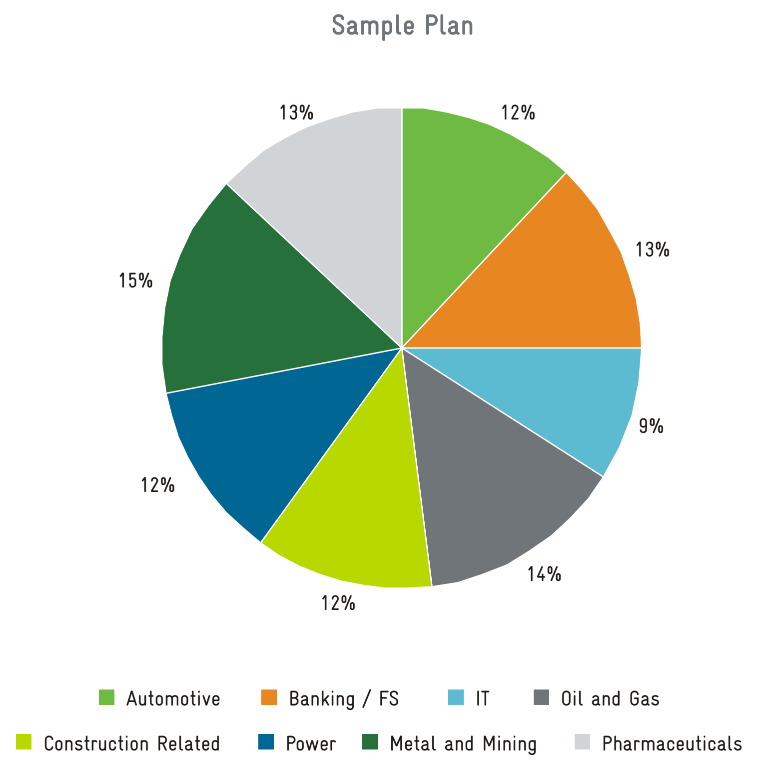
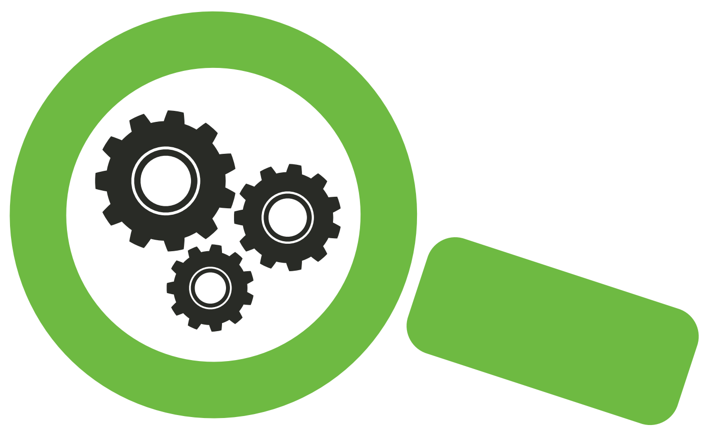


Figure 38: Depiction of the Sampling Plan for Evaluating Companies

The composition of the eight sectors in the sample plan is shown in Figure 38. Primary consultations with over 20 companies were held to understand their perspective on sustainability reporting. The consultations covered companies that have sustainability reports as well as those that do not have separate disclosures for sustainability. It was found that companies are aware of sustainability as a concept and its emerging importance in business.



Methodology and Model for Evaluating Sustainability Disclosures

The annual reports and websites of companies (see Annexure 2: List of Companies in the Sample for Secondary Data Analysis) were studied. Information from the CDP reports was also analysed with a focus on climate change. A consolidated analysis of the GRI reports coupled with information available on the websites and the annual reports of the companies concerned was used to evaluate the disclosures. A total of 75 separate sustainability disclosures were studied and analysed. These include sustainability reports from companies using more than one disclosure guideline. For companies without a separate sustainability report, information from annual reports and websites was compiled and analysed.

The disclosures made in the sustainability reports, annual reports and websites of the companies have been compiled and specific information around the following key enablers has been analysed:

1. Involvement of Senior management
2. Stakeholder engagement
3. Measurement and Monitoring of performance
4. Linkage of ESG Parameters to Core Business Indicators

The study analyses disclosures on performance indicators on Environmental, Social and Governance (ESG) issues, and captured the trends in reporting with special focus on maturity of processes. It also suggests the way forward for reliable and transparent reporting. Economic disclosures are not evaluated in this study on sustainability, as India has mandatory reporting and disclosure standards that all companies have to follow.

Annexures

Annexure 1: Policy Environment in India

India has pursued policies and publicly funded programs addressing concerns arising out of climate change and its social and economic impact. They are focused on energy conservation, renewable energy, conservation of habitat and ecosystem as well as poverty alleviation programs. These have been backed by regulations, tariff and legislations. Some examples over the last decade are (ref: Climate Change perspectives from India 2009, UNDP - Lasting Solutions for Development Challenges):

a. Reforming Energy Markets: Electricity Act Act 2005, Tariff Policy 2003, Petroleum & Natural Gas Regulatory Board Act, 2006 involving removal of entry barriers in exploration, extraction, conversion, transmission and distribution of primary and secondary energy, Instituting price reform and tax reforms to promote optimal fuel choices, providing feed in tariffs for renewable energy like solar, wind and biomass and strengthening or introducing independent regulation.
b. New and Renewable Energy Policy, 2005: Promotes adoption of sustainable and renewable energy sources. It facilitates speedy deployment of renewable technology through indigenous design, development and manufacturing.
c. Rural Electrification Policy, 2006: The policy promotes renewable energy technologies where grid connectivity is not possible or cost-effective.
d. Biodiesel Purchase Policy: It mandates biodiesel procurement by petroleum companies.
e. Ethanol Blending of Gasoline: The regulation mandates five percent blending of ethanol with gasoline from 1January 2003 in nine states and four Union Territories.
f. Energy Conservation Act, 2001: The legislation aims to reduce specific energy consumption in different sectors. It set up the specialized Bureau of Energy Efficiency (BEE).
g. Energy Conservation Building Code, 2006: This regulatory code is designed to ensure energy efficiency in all buildings with above 500 kVA connected load or air-conditioned floor area over 1000 square metres.
h. 50,000 MW Hydroelectric Initiative, 2003: One hundred and sixty-two new hydro-electricity projects with 50,000 MW potential have been identified.
i. Others programs: These include the promotion of solar thermal water heaters, solar PVs, wind power generation, biomass gasifiers, biogas and manure management, fuel cells, energy recovery from urban wastes and many similar energy saving activities.
j. Government of India adopted an Integrated Energy Policy as an overarching framework in 2008.

The Prime Minister's Office (PMO) driven National Action Plan for Climate Change has proposed various actions, that have translated into pioneering initiatives and important legislative changes. Some of the primary policy initiatives arising out of the recommendations of the NAPCC are as follows:

1 Indian Network of Climate Change Assessment: It is a network of research institutions with a mandate to conduct research on climate change and its impact on the economy. They released the inventory of Green House Gas emission in India in 2010, making India the first developing nation to do so. This network is also assessing the impact of climate change on water resources, forests, agriculture and human health in the ecologically sensitive regions Himalaya, NE states, Western Ghats and Coastal regions. Satellites are also expected to be launched to assist in data collection and monitoring.

2. Expert group on inclusive growth and low carbon strategy: This has been set up within the planning commission with representation from Industry, research institutions, civil society and think tanks. The group's recommendation has been considered for the Twelfth five year plan.

3. National Mission on Enhanced Energy Efficiency (Under the National Action Plan on climate Change -NAPCC)

a. Perform Achieve and trade (PAT) Mechanism: This will be applicable to sectors that are high consumers of fossil fuel and together account for over50% of fossil fuel in India. Targets are set for the industrial units, in terms of reduction in carbon dioxide reduction and specific energy consumption. Energy saving certificates awarded for exceeding target reductions under this scheme can offset extra consumption in other operations.

b. Market Transformation for Energy Efficiency (MTEE): Accelerated shift to energy efficient appliances in designated sectors will be enabled through innovative measures. These products would be made more affordable. This target would be achieved by Demand side management (DSM) measures, supported with Clean Development Mechanism (CDM) financing wherever possible. The initiative includes the following activities:
i. National CDM Roadmap
ii. Programmatic CDM: BEE is exploring undertaking CDM Programme of Activities for the following sectors: lighting (Bachat Lamp Yojana), Municipal

DSM, Agricultural DSM, SME sector, Commercial Building sector and for Distribution Transformers.

iii. Standards and Labeling: Step by step notification for mandatory labeling for Equipment & Appliance for Domestic Sectors, Hotel Equipments, Office Equipments, Industrial Products, Transport Equipments.

iv. Public procurement: Amendment of procurement rules to explicitly mandate procurement of energy efficient products for all public entities.

C. Financing of Energy Efficiency: The initiative focuses on the creation of mechanisms that would help finance demand side management programmes in all sectors by capturing future energy savings. The initiative includes the following activities:

i. Fiscal instruments: Tax exemptions for the profits and gains made from energy efficiency projects by ESCos and Venture Capital funds. Reduction of VAT for energy efficient equipment (e.g. CFLs)

ii. Revolving fund: To promote carbon finance

iii. Partial Risk Guarantee Fund: To provide commercial banks with partial coverage of risk exposure against loans made for energy efficiency projects. The fund will charge a small fee on all projects seeing the risk guarantee.

D. Power Sector Technology Strategy

i. This strategy is aimed to enhance energy efficiency in power plants.

ii. Adopt energy efficient generation technologies in new plants including supercritical boilers

iii. Enhance energy efficiency in existing plants

iv. Roadmap for IGCC demonstration plants

v. Development of know-how for advanced super-critical boilers

vi. Road map for fuel shift

4. National Mission on Sustainable Habitat (Under NAPCC): The key objectives are

a. Promote energy efficient residential and commercial sectors by ensuring better implementation and availability of knowledge and information on green designs, this mission also offers financial incentives for implementation.

b. Waste management taking into account possibility of reuse, recycling and energy creation

c. Improving urban transportation for increased usage through a combination of regulatory and fiscal measures.

5. Jawaharlal Nehru Solar Mission (Under NAPCC): Working towards making India a global leader in solar energy

a. Set target for generation of 20000 MW of solar power by 2011

b. Creating solar lighting systems for distribution in rural areas

6. Green India Mission (Under NAPCC) to improve the quality of forest cover with the involvement of local government institutions. Targets have been set for eco restoration and carbon sequestration.

7. Sustaining the Himalayas (Under NAPCC): Set up to evolve management and policy measures for sustaining the Himalayan glaciers and ecosystem. Observation and monitoring network is expected to be established.

8. National Mission of Strategic Knowledge for Climate Change (Under NAPCC): This served to address the urgent need to improve understanding of the climate change phenomena and create necessary scientific infrastructure to develop better climate modeling and data acquisition infrastructure.

9. National Water Mission (Under NAPCC): This addresses the impending scarcity of fresh water and its efficient management and distribution. It proposes to develop regulatory and pricing structure to encourage adoption of water neutral and positive technology.

10. National Mission on Sustainable Agriculture (Under NAPCC): Focuses on sustainability of agriculture and its adaptation to changing climatic conditions through access to information and use of biotechnology, risk management and exploring options for dry land agriculture.

Commitment of State Government: States are preparing to take on the challenges of sustainable development drawing from the National Action Plan on Climate Change.

Annexure 2: List of Companies in the Sample for Secondary Data Analysis

Automotive
Amtek Auto Ltd.
Apollo Tyres Ltd.
Ashok Leyland Ltd.
Bajaj Auto Ltd.
Bharat Forge Ltd.
Bosch Ltd.
Cummins India Ltd.
Exide Industries Co. Ltd.
Hero Honda Motors Ltd.
Mahindra & Mahindra Ltd.
Maruti Suzuki India Ltd.
Motherson Sumi Systems Ltd. (Balda)
MRF Ltd.
Tata Motors Ltd.

Oil & Gas
Aban Offshore Ltd.
Bharat Petroleum Corpn Ltd.
Cairn India Ltd.
Castrol India ltd.
Essar Oil Ltd.
Gail (India) Ltd.
Gujarat State Petronet Ltd.
Hindustan Oil Exploration Co.
Hindustan Petroleum Corp Ltd.
Indian Oil Corporation Ltd.
Indraprastha Gas Ltd.
Mangalore Refinery & Petro Ltd.
Oil India Ltd.
ONGC Ltd.
Petronet LNG Ltd.
Reliance Industries Ltd.

Metals, Metal Products & Mining
Bhushan Steel & Strips Ltd.
Coal India Limited
Gujarat NRE Coke Ltd.
Hindalco Industries Ltd.
Hindustan Copper Ltd.
Hindustan Zinc Ltd.
Ispat Industries Ltd.
Jindal Saw Ltd.
Jindal Steel & Powers Ltd.
JSW Steel Ltd
National Aluminium Co. Ltd.
NMDC Ltd.
Sesa Goa Ltd.
Steel Authority of India Ltd.
Sterlite Industries Ltd.
Tata Steel Ltd.

Banking Sector
ICICI Bank Ltd.
HDFC Bank Ltd.
IndusInd Bank Ltd.
Yes Bank Ltd.
AXIS Bank Ltd.
Kotak Mahindra Bank Ltd.
Bank of Baroda
Punjab National Bank
State Bank of India
Union Bank of India
Bank Of India
Canara Bank
IDBI Bank Ltd.

Construction Related
ACC Ltd.
Ambuja Cements Ltd.
DLF Ltd.
Hindustan Construction Co. Ltd.
Housing Development &
Infrastructure Ltd.
L&T
IRB Infrastructure Developers Ltd.
IVRCL Infrastructures & Projects Ltd.
Jaiprakash Associates Ltd.
Lanco Infratech Ltd.
Nagarjuna Construction Co. Ltd.
Ultratech Cement Limited
Unitech Ltd.

Healthcare
Apollo Hospitals Enterprises Ltd.
Aurobindo Pharma Ltd.
Biocon Ltd.
Cadila Healthcare Ltd.
Cipla Ltd.
Divi's Laboratories Ltd.
Dr Reddy's Laboratories Ltd.
GlaxoSmithKline Pharmaceuticals Ltd.
Glenmark Pharmaceuticals Ltd.
Lupin Ltd.
Piramal Healthcare Ltd.
Ranbaxy Laboratories Ltd.
Sun Pharmaceutical Industries Ltd.

Power
Adani Power Ltd.
CESC Ltd.
Jaiprakash Hydro-Power Ltd.
JSW Energy Ltd.
Neyveli Lignite Corpn.
NHPC Ltd.
Power Grid Corporation of India Ltd.
PTC India Ltd.
Reliance Infrastructure Ltd.
Reliance Power Ltd.

Information Technology
Educomp Solutions Ltd.
Financial Technologies (India)
HCL Technologies Ltd.
Infosys Technologies Ltd.
Mphasis Ltd.
Oracle Financial Services Software Ltd.
Patni Computer Systems Ltd.
Tata Consultancy Services Ltd.
Tech Mahindra Ltd.
Wipro Ltd.

Annexure 3: Terms and Acronyms Used

Acronym	Definition
Brundtland Commission	The Brundtland Commission was convened by the United Nations in 1983. The Commission was created to address the growing concern "about the accelerating deterioration of the human environment and natural resources and the consequences of that deterioration for economic and social development." The Report of the Brundtland Commission, 'Our Common Future', was published by Oxford University Press in 1987.
BSE	Bombay Stock Exchange
BSE 200	The equity shares of 200 selected companies from the specified and non-specified lists of BSE are included on the basis of current market capitalization of the listed scrips.
CDM	Clean Development Mechanism The CDM allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of CO2. These CERs can be traded and sold, and used by industrialized countries to a meet a part of their emission reduction targets under the Kyoto Protocol.[32]
CSP	Corporate Social Performance A three-dimensional integration of corporate social responsibility, corporate social responsiveness, and social issues[33]
Clause 49	The Securities and Exchange Board of India (SEBI) instituted this Clause of the Listing Agreements dealing with corporate governance.
CDP	Carbon Disclosure Project
CER	Certified Emission Reduction
CII	Confederation of Indian Industry
CoP	Communication on Progress (COP), a public disclosure to stakeholders (for example, investors, consumers, civil society, governments, etc.) on the progress made in implementing the ten principles of the UN Global Compact, and in supporting broad UN development goals.
CSR	Corporate Social Responsibility
CPSE	Central Public Sector Enterprises
Company's Bill, 2011	This replaces the existing half-a-century-old Companies Act, updates corporate laws in the country and introduces modern concepts like mandatory CSR and class action suits.
DPE	Department of Public Enterprise, under the Ministry of Heavy Industries and Public Enterprise. The Department of Public Enterprises acts as a nodal agency for all Public Sector Enterprises (PSEs) and assists in policy formulation pertaining to the role of PSEs in the economy as also in laying down policy guidelines on performance improvement and evaluation, financial accounting, personnel management and in related areas. It also collects, evaluates and maintains information on several areas in respect of PSEs.

Acronym	Definition
Director's Report	This is a report of the Board of Directors mandated by the Indian Companies Act and is attached with every balance sheet laid before a company in a general meeting. It is intended to report, to all interested stakeholders, the directors' explanations and interpretations of the profit/loss, the state of affairs of the organisation and any other matters which may be material for the stakeholders' attention
EIA	Environment Impact Assessment Study to predict the effect of a proposed activity/project on the environment. A decision-making tool, EIA compares various alternatives for a project and seeks to identify the one which represents the best combination of economic and environmental costs and benefits.[34]
ESG	Environment, Social [Criteria] and Governance
GCN	Global Compact Network
GHG	Greenhouse Gas
GRI	Global Reporting Initiative GRI produces a comprehensive Sustainability Reporting Framework that is widely used around the world. The Framework enables all organizations to measure and report their economic, environmental, social and governance performance the four key areas of sustainability. The Reporting Framework, which includes the Reporting Guidelines, Sector Supplements and other resources, enables greater organizational transparency about economic, environmental, social and governance performance.
G3.1	An update and completion of G3, with expanded guidance on reporting gender, community and human rights-related performance in March 2011
G3	The third generation of GRI Guidelines, launched in 2006.
G2	The second generation of GRI Guidelines, launched in 2002 at the World Summit on Sustainable Development in Johannesburg.
G1	First generation of GRI Guidelines
IICA	Indian Institute of Corporate Affairs IICA has been established by the Indian Ministry of Corporate Affairs for capacity building and training in various subjects and matters relevant to corporate regulation and governance such as corporate and competition law, accounting and auditing issues, compliance management, corporate governance, business sustainability through environmental sensitivity and social responsibility, e-Governance and enforcement.
IT	Information Technology
MCA	Ministry of Corporate Affairs, Government of India
MD&A	Management Discussion and Analysis, a mandatory part of annual report as per SEBI listing guidelines.
MoEF	Ministry of Environment and Forests

Acronym	Definition
NAPCC	National Action Plan on Climate Change
NGO	Non-governmental Organization
NSE	National Stock Exchange
NSE 200	List from top 200 companies ranked on an average free-float market capitalization and aggregate turnover for the last six months form part of the eligible universe for selection of companies in the index. Further, the company's trading frequency should be at least 90 per cent during the previous six months and the company should have reported positive net worth.
NSE 500	India's first broad-based benchmark of the Indian capital market. It represents about 94.95 per cent of the Free Float Market Capitalization and about 93.64 per cent of the total turnover on the NSE as on 30 September 2011.
NVGs	National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, released by the Ministry of Corporate Affairs, Government of India
PMO	Prime Minister's Office
Planning Commission	Functions of Planning Commission in India a. Make an assessment of the material, capital and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirement; b. Formulate a Plan for the most effective and balanced utilization of the country's resources; c. On a determination of priorities, define the stages in which the Plan should be carried out and propose the allocation of resources for the due completion of each stage; d. Indicate the factors which are tending to retard economic development, and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the Plan; e. Determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the Plan in all its aspects; f. Appraise from time to time the progress achieved in the execution of each stage of the Plan and recommend the adjustments of policy and measures that such appraisal may show to be necessary; and g. Make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it, or on a consideration of prevailing economic conditions, current policies, measures and development programmes or on an examination of such specific problems as may be referred to it for advice by Central or State Governments.
SEBI	Securities and Exchange Board of India, established on 12 April 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992… "to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto"

Acronym	Definition
	Standard and Poor's
S&P	Specify change relative to productivity or economic output
Target Intensity	United Nations Development Programme
UNDP	United Nations Global Compact. A United Nations initiative to encourage businesses worldwide to
UNGC	adopt sustainable and socially responsible policies, and to report on their implementation. The Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labour, the environment and anti-corruption.

32 http://cdm.unfccc.int/about/index.html

33 The Evolution of the Corporate Social Performance Model, Steven L. Wartick and Philip L. CochranReviewed work(s), The Academy of Management Review, Vol. 10, No. 4 (Oct., 1985), pp. 758-769, http://www.jstor.org/stable/pdfplus/258044.pdf?acceptTC=true

34 http://www.cseindia.org/node/383