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CORPORATE ENVIRONMENTAL REPORTING: A CHANGING TREND IN THE CORPORATE WORLD FOR SUSTAINABLE DEVELOPMENT

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ABSTRACT

Sustainability Reporting has been a buzzword for the today's corporate world and it is a vital step for managing change towards a sustainable economy that combines long-term profitability with social justice and environmental care. Indian corporate world is no exception from this. India is acknowledged as one of the fastest growing economies in the world. At the same time emerging challenges related to environment and exploitation of resources are also increased and giving threats for the future generations. Development over the years has remained largely focused on increasing profitability, raising the growth of GDP, increasing the availability of goods and services to the consumers and moreover improving the living standards of people. Increasing industrialisation and the consequences of the reckless exploitation of natural resources have resulted in the shape of degraded land fertility, decline forest area, contamination of water bodies and pollution of atmosphere.

These so called developments have not only adversely affected the health efficiency and productivity of the present generation but also threaten the process of future growth due to the decreasing availability of natural resources in the shape of degraded and infertile lands, drying oil fields, empty mines, polluted air and contaminated water sources. This indicates that the current tempo of economic growth is likely to suffer and become unsuccessful in future. So there is an urgent need to ensure the current tempo of economic growth, judicious use of its resources, need for the preservation of environment and most importantly include these in development policies and frame necessary laws for the enforcement.

Amid this back ground this paper endeavours to study a conceptual discussion on corporate environmental reporting and guidelines for developing a sustainable corporate culture.

KEYWORDS: Corporate Environmental Reporting, Long-Term Profitability, social Justice, Sustainable Corporate Culture, Sustainability Reporting

INTRODUCTION

Sustainability is a word generally found in biology but now a day we can found it more often in economics and corporate world. There has been a general perception that right from the time of Industrial Revolution, economic development has come at the cost of environment and has brought about large scale destruction of nature and growth process has not been inclusive. Due to the negative externalities of economic development, the practice of non-financial reporting started largely in response to pressure from non-governmental organisations (NGOs) and civic society, which claimed that many firms lacked social and environmental responsibility. It indicates that a company's financial health is dependent on much more than the assets on its balance sheet and the movements on its profit and loss account.

Sustainable Reporting or Non-financial reporting is an opportunity to communicate in an open and transparent way with stakeholders. In their non-financial reports, firms volunteer an overview of their environmental and social impact during the previous year. The information in nonfinancial reports contributes to building up a company's risk-return profile.

Economic development seeks to increase the rate at which national income (GNP) is increasing and achieve redistribution of income in favour of the poor or weaker sections of society. Increase in GNP results from increased production in various economic sectors such as industry, agriculture, mining etc. The process of increase in output involves greater use of resources such as land, forests, mines, fuels, raw materials, powers etc whose supply is essentially limited. Excessive use of these limited resources may cause their depletion, degradation and even exhaustion.

Thus in the race for development output is sought to be increased through rapid depletion of resources under unhealthy environment conditions by the present generation. By doing so we may be handing down to the future generations much depleted resources to produce output under polluted environmental conditions that adversely affect their health and efficiency. So we can say we are producing more at the cost of future generations. In other words the present level of development is not sustainable. So now a day the concept of Sustainable Reporting Practices and especially the corporate environmental reporting has been given due significance.

LITERATURE REVIEW

The methods of reporting among the companies have grown over the years. Many means of reporting were relied upon in conveying environmental information to stakeholders. Among them are newsletters, press release, magazine and corporate booklets **(Zeghal and Ahmed 1990).**

The main reason for incorporation of environmental information within the annual reports is to increase stakeholders' awareness of the company's activities, performance, and interactions with the environment. It was hoped that stakeholders might use the information to assist their decision-making process **(Jones 2000).**

Financial Accounting Standard Board (1994, FAS – 1) defines the main objectives of financial reporting as: "…….to provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence".

Corporate reports which disclose the performance and position of companies without significant environmental cost reporting will be showing a distorted view of the business" **(Pizzey 1998).**

SUSTAINABILITY REPORTING AND SUSTAINABLE DEVELOPMENT

According to Brundtland Commission (1987) "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs." So sustainable development attempts to strike a balance between the demands of economic development and the need for protection of natural and environmental assets. It seeks to accelerate development in an environmentally responsible manner keeping in mind the equity in consumption level that providing a fair share of natural resources for the future generations to meet their requirements.

Sustainability Reporting (SR) is the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable and inclusive development. It is otherwise named as Non-Financial Reporting (NFR).

ADVANTAGES OF SUSTAINABILITY REPORTING (SR)

There are multiple advantages to both report preparers and report readers. The advantages to the report preparers are:

- Tool for increased comparability and reduced cost of sustainability
- Brand and reputation enhancement
- Differentiation in the market place
- Protection from brand erosion due to action of suppliers or competitors
- Fosters innovations in order to make processes environment friendly.

Advantages to the report readers are:

- Useful benchmarking tool
- Corporate governance tool
- Avenue for long-term dialogue with reporting organisation.

To sum up:

- Corporates that focus on Sustainability Reporting outperform their peers in the long run and help in consolidating their market position
- In view of reliable correlation between business integrity and above average financial performance, NFR demonstrates ongoing business integrity and enhances investor and stakeholder confidence.
- Helps to acquire national and international listing and gain access to otherwise restricted markets
- Helps to attract finance through transparent relationship with credit providers, improve management systems and employee motivation and customer satisfaction.

(Address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at the National Conference on "Non-Financial Reporting and Risk Management for Financial Institutions in India", jointly organised by GIZ, SIDBI, Global Reporting Initiative (GRI), IIM Bangalore and NextGen, Mumbai, 6 June 2011.)

CORPORATE ENVIRONMENTAL REPORTING

Corporate Environmental Reporting describes various means by which companies disclose and communicate company's environmental performance and environmental activities to the users. Corporate environmental reporting is the process by which a corporation communicates information regarding the range of its environmental activities to a variety of Stakeholders including employees, local communities, shareholders, customers, government and environmental groups. It is important to distinguish between the terms environmental reporting and corporate environmental reports (CERs).

Corporate Environmental Reports (CERs) are only one form of environmental reporting defined as publicly available, stand-alone reports issued voluntarily by companies on their environmental activities. Environmental reports can be considered a sort of small world where many crucial points in the relationship between a company and its stakeholders meet together.

There can be said to be three categories of environmental disclosures:

- Involuntary disclosure – the disclosure of information about a company's environmental activities without its permission and against its will. Examples of involuntary disclosures are environmental campaigns, press and media exposes and court investigations.
- Mandatory disclosure – the disclosure of information about a company's environmental activities that is required by law.
- Voluntary disclosure – the disclosure of information on a voluntary basis. There are two types of voluntary disclosures: confidential and non-confidential. Confidential voluntary disclosures are those required by banks, insurers, customers and joint venture partners that are not publicly available. Non-confidential voluntary environmental disclosures are practically any environmental information the company voluntarily makes available to the general public.

COMPONENTS OF CER

To effectively explore the growing expectations of corporate environmental responsibility, the following components of CER can be identified:

- Environmental commitment and awareness;
- Stakeholder engagement;
- Measuring, reporting and auditing;
- Transparency;
- Commitment to continuous improvement; and
- Going beyond compliance.

Environmental Commitment and Awareness

Environmental commitment and awareness is a key component of CER. It emphasizes the involvement and attitude of management and concerned regulatory bodies towards its implementation. Leaders from the corporate should emphasize the importance of a corporate culture built to "institutionalize sustainability."

Stakeholder Engagement

There is a general consensus that current models of stakeholder engagement are inadequate. There is concern that many models of engagement are predominantly driven by public relations objectives i.e., "duty to consult" rather than the establishment of effective relationships. So the opportunities for meaningful engagement are constrained by a relatively narrow corporate definition of stakeholders.

Measurement, Reporting and Auditing

An improved corporate environmental reporting based on the measurement and reporting of actual outputs and impacts to the environment. Corporate reporting should track and report trends over time and report mistakes as well as successes. Credible, science-based principles of measurement, which fully account for all environmental impacts, should be adopted by the business community. The corporate auditing process should be verified by independent third parties.

Transparency

Transparency and access to information, analysis and resources to allow for effective understanding of corporate activity are essential to CER. This requires a shift from contemporary “consultation” approaches to engagement with “full, effective and empowered participation.” Companies should be transparent through the full, accurate and timely disclosure of information about their operations. Companies should be willing to share non-confidential information, including raw data, in an easily accessible manner.

Commitment to Continuous Improvement

Leadership in CER is shown by a company that strives to continuously improve and tracks and demonstrates environmental improvements.

Beyond Compliance

CER leaders should not be driven by the minimum performance level set by environmental regulations but instead move towards eliminating their environmental impact. They should support various beyond compliance approaches and principles, including adoption of an operating philosophy based on natural systems or environmental restoration, and adoption of the precautionary principle.

OBJECTIVES OF CORPORATE ENVIRONMENTAL REPORTING

Corporate environmental reporting serves many different purposes for different stakeholders:

- It discloses the performance and position of companies without significant environmental cost reporting will be showing a distorted view of the business.
- It empowers the people the information they need to hold corporations accountable, and invites stakeholders more fully into the process of corporate goal setting.
- It permits the investor the harness the power of the capital market to promote and ensure environmentally-superior business practices.
- It allows companies and their stakeholders to measure companies adherence to standards set forth in their statement of environmental principle, and their various goals and objectives.
- Environmental risk is the internal part of the risks facing every organization. Reporting can help to identify such risks, and where they could arise, and thus prevent damage to reputation from negative publicity on an environmental issue.

BENEFITS OF CORPORATE ENVIRONMENTAL REPORTING

The benefits derived from environmental reporting can roughly be divided in two categories: financial and strategic.

Financial

If a company can demonstrate good environmental performance and an acceptable level of environmental liability to its stakeholders, it may benefit financially in that its share price may increase.

Strategic and Competitive

Potential strategic benefits include improving the company image and building better relations with relevant stakeholder groups.

LEGISLATION ON ENVIRONMENTAL REPORTING IN INDIAN SCENARIO

There is widespread environmental awareness among all sections of society in India. Along with the voluntary guidelines Indian regulatory bodies have prescribed certain norms and guidelines to bring the uniformity in disclosures. The public awareness towards environmental issues like environmental pollution, environmental preservation and environmental development has grown tremendously at the beginning of the seventies. This is evident from the contemporary regulatory regime that is being enforced for businesses by the Central and State Government of India. Various pieces of legislation have been enacted since mid-70's for the protection of environment which are:

- The Water (Prevention and Control of Pollution) Rules, 1975;
- The Water (Prevention and Control of Pollution) Cess Rules, 1978;
- The Environment (Protection) Rules, 1986;
- The Manufacture, Storage and Import of Hazardous Chemical Rules, 1989;
- The Public Utility Insurance Rules 1991;
- The Environment Impact assessment Notification, 1994;
- The Environment Import assessment (Public Hearing) Notification Rules, 1998;
- Noise Pollution (Regulation & Control) Rules, 2000.

One of the fundamental features of India's ancient philosophy has always been respect for the environment. The Indian Constitution is amongst the few in the world that contains specific provisions on environmental protection. State policy principles explicitly enunciate the national commitment to protect and improve the environment. The national environmental policy framework is the responsibility of the Ministry of Environment and Forests. Implementation is undertaken by the Central Pollution Control Board (CPCB) and the State Pollution Control Board (SPCB) at the Central and state levels respectively. The Department of Environment at the Central level supports the SPCBs. The Environment (Protection) Act of 1986, considered as the "Umbrella Act", was formulated for the protection and improvement of the quality of the environment and prevention, control and abatement of environmental pollution. The Act is also an "enabling" law, which articulates the essential legislative policy on environmental protection and delegates wide powers to competent authorities to frame necessary rules and regulations.

- In terms of this Act, each covered organization should submit an annual “environmental audit report” (in a prescribed format) to the relevant SPCB.
- Reporting in the environmental statement includes parameters such as water and raw material consumption, pollution generated (along with variations from prescribed standards), quantities and characteristics of hazardous and solid wastes, impact of pollution control measures on conservation of natural resources and on cost of production, and additional investment proposals for environmental protection. At this stage, the statement is not required to be audited. The legal requirement on its preparation and submission helps ensure that data on environmental measures is collated, categorized and analysed by all businesses covered under the legislation. Many organizations in India have started to audit these statements internally with a view to improving their environmental performance and as a matter of good practice.

SEBI GUIDELINES ON ENVIRONMENTAL REPORTING

As per the circular no. CIR/CFD/DIL/8/2012 issued by SEBI, every listed company has to disclose the steps taken from an Environmental, Social and Governance (“ESG”) perspective.

It has been decided to mandate inclusion of Business Responsibility Reports (“BR reports”) as part of the Annual Reports for listed entities. Therefore, in line with the objective to enhance the quality of disclosures made by listed entities, certain listing conditions are hereby specified by way of inserting Clause 55. These guidelines contain comprehensive principles to be adopted by companies as part of their business practices. The principles related to Environment are specifically mentioned in Principles no 6. According to this principle, Business should respect, protect, and make efforts to restore the environment. In order to achieve the above objectives business has to abide by the following principles:

- Businesses should utilize natural and manmade resources in an optimal and responsible manner and ensure the sustainability of resources by reducing, reusing, recycling and managing waste.
- Businesses should take measures to check and prevent pollution. They should assess the environmental damage and bear the cost of pollution abatement with due regard to public interest.
- Businesses should ensure that benefits arising out of access and commercialization of biological and other natural resources and associated traditional knowledge are shared equitably.
- Businesses should continuously seek to improve their environmental performance by adopting cleaner production methods, promoting use of energy efficient and environment friendly technologies and use of renewable energy.
- Businesses should develop Environment Management Systems (EMS) and contingency plans and processes that help them in preventing, mitigating and controlling environmental damages and disasters, which may be caused due to their operations or that of a member of its value chain.
- Businesses should report their environmental performance, including the assessment of potential environmental risks associated with their operations, to the stakeholders in a fair and transparent manner.
- Businesses should proactively persuade and support its value chain to adopt this principle.

ENVIRONMENTAL REPORTING UNDER THE COMPANIES ACT

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

Section 217 of the Act stipulates that the Board of Directors' Report (attached to every balance-sheet tabled at a company annual general meeting) shall contain information on conservation of energy. The latter is expected to include:

- Energy conservation measures taken;
- Additional investments and proposals, if any, being implemented for reduction of the consumption of energy;
- Impact of the measures taken above for reduction of energy consumption and consequent impact on the cost of production of goods; and
- Total energy consumption and energy consumption per unit of production in respect of specified industries.

CHALLENGES OF ENVIRONMENTAL REPORTING IN INDIA

The important challenges of corporate environmental reporting today can be summarized in three words: Continuity, Comparability and Credibility.

Continuity

It can be ensured by publishing environmental reports with regular intervals, by setting targets and reporting back on progress and by using the same performance indicators over time.

Comparability

Comparability is a best achieved by using standardized and normalized environmental performance indicators. Mandatory disclosure in the Annual Report and financial statements will also improve the comparability.

Credibility

It will only be achieved by openness and balanced tone in the report. Engaging stakeholders in dialogue is an important part of the process. Verification of environmental reports will only add credibility when the value of the verification statement is clear and the credibility of the verifier is higher than the credibility of the company itself.

The challenge facing the business sector is to develop environmental reporting both as a useful environmental management tool, and as a means to provide stakeholders with credible information about their environmental performance.

CONCLUSIONS

Corporate Environmental reporting has traditionally been a voluntary method of communicating environmental performance to stakeholders. More recently, there has been movement towards making environmental reporting mandatory. Denmark, New Zealand, France and Netherlands have already introduced legislation on environmental reporting. Another major challenge to reporting community at large in India is to improve comparability among environmental reports. Most of the corporate leaders are still confused to decide on what issues to be addressed or left out in its environmental report. Involvement and commitment of corporate accountants in environmental management appears to be limited due to lack of regional reporting guidelines. Policy makers and regulatory bodies have to take an eye on the mandatory disclosure of the environmental reporting practices. More importantly sustainable development is totally based on the attitude, eagerness and involvement of people, corporate leaders and policy makers.

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