# SUSTAINABILITY ACCOUNTING AND REPORTING PRACTICES IN INDIA

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***Abstract***

*In a world of changing expectations, companies must account for the way they impact the communities and environments where they operate. Businesses can sustain their growth only if society is generally satisfied with their overall contribution to societal well-being. Climate change, community health, education and development and business sustainability are some of the most pressing issues of our time. This raises the importance of accurately and transparently accounting for and reporting these activities. Businesses can't afford to function and survive in the long run unless they behave in a legitimate and socially responsible manner. Governments of various countries began to scrutinise the activities of companies under the different dimensions of sustainable development. For this Sustainable Reporting was introduced as a tool to measure the performance. Sustainability Reporting (SR) or Non- Financial Reporting (NFR) is the process of communicating the social and environmental effects of organizations to particular interest groups within society and at large. The paper highlights the sustainabilityframework alongwith the advantages and challenges faced by Indian corporates while following GRI based Sustainability Reporting Standards.*

***Keywords - Sustainability Accounting, Sustainability Framework, Global Reporting Initiative, Sustainability Accounting Standards Board***

**Concept of Sustainability Accounting**

Sustainability accounting was originated about twenty years ago and is considered a subcategory of financial accounting that focuses on the disclosure of non-financial information about a firm's performance to external parties such as capital holders, mainly to stakeholders, creditors and other authorities. These represent the activities that have a direct impact on society, environment, and economic performance of an organisation. Sustainability accounting in managerial accounting contrasts with financial accounting in that managerial accounting is used for internal decision making and the creation of new policies that will have an effect on the organisation's performance at economic, ecological, and social (known as the triple bottom line or Triple-P's; People, Planet, Profit) level. The topic is fairly new and being led in Europe.

The most widely accepted definition of sustainability that has emerged over time is the "triple bottom-line" consideration of economic viability, social responsibility and environmental responsibility. While environmental considerations are often the focus of attention, the triple- bottom-line definition of sustainability is a broad concept. In addition to preservation of the physical environment and stewardship of natural resources, sustainability considers the economic and social context of doing business and also encompasses the business systems, models and behaviours necessary for long-term value creation. Sustainability accounting is the generation, analysis and use of monetarised environmental and socially related information in order to improve corporate environmental, social and economic performance.

Sustainability Accounting is a tool used by organisations to become more sustainable. The most known widely used measurements are the Corporate Sustainability Reporting and the triple bottom line accounting. These recognise the role of financial information and show how traditional accounting is extended by improving transparency and accountability by reporting on the Triple-P's.

As a result of the triple bottom level reporting, and in order to render and guarantee consistency in social and environmental information the GRI (Global Reporting Initiative), was established with the goal to provide guidelines to organisations reporting on sustainability. In some countries guidelines were developed to complement the GRI. The GRI states that "reporting on economic, environmental and social performance by all organizations is as routine and comparable as financial reporting".

In the United States, established in 2011, the Sustainability Accounting Standards Board (SASB) is an independent, private-sector standard setting organization based in San Francisco, California dedicated to enhancing the efficiency of the capital markets by fostering high-quality disclosure of material sustainability information that meets investor needs. The SASB develops and maintains sustainability accounting standards-for 79 industries in 11 sectors that help public corporations disclose financially material information to investors in a cost-effective and decision-useful format. The SASB's transparent, inclusive, and rigorous standards-setting process is materiality focused, evidence-based and market informed.

Sustainability accounting as a notion is, then, thrust into the ongoing debate about what the fundamentals of sustainability and corporate sustainability (e.g. Schaltegger and Burritt, 2005) are and what the term means to different parties, especially management and external stakeholders. Financial and cost accounting were initially designed to meet the needs of external reporting (Wells, 1978; Fleischman and Tyson, 1998), while management accounting developed to meet the needs of managers for relevant data for decision making, planning, control, etc. (Burritt, 2002). The first publications linking accounting with sustainability tended to focus on the deficiencies of conventional accounting (Gray, 1992; Schaltegger and Sturm,1992; Mathews, 1997; Schaltegger and Burritt, 2000), as well as the limits of the underlying philosophy of accounting, which conventionally focuses on monetary, quantitative measures of corporate economic activities (Maunders and Burritt, 1991; Gray, 1992; Lehman, 1999; Mathews, 1997, 2001).

**Sustainbility Framework**

Sustainability accounting reflects the management of a corporation's environmental and social impacts arising from production of goods and services, as well as its management of the environmental and social capitals necessary to create long-term value. It also includes the impacts that sustainability challenges have on innovation, business models, and corporate governance and vice versa. Therefore, SASB's sustainability topics are organized under five broad sustainability dimensions:

**Environment:** This dimension includes environmental impacts, either through the use of non-renewable, natural resources as inputs to the factors of production or through harmful releases into the environment that may result in impacts to the company's financial condition or operating performance.

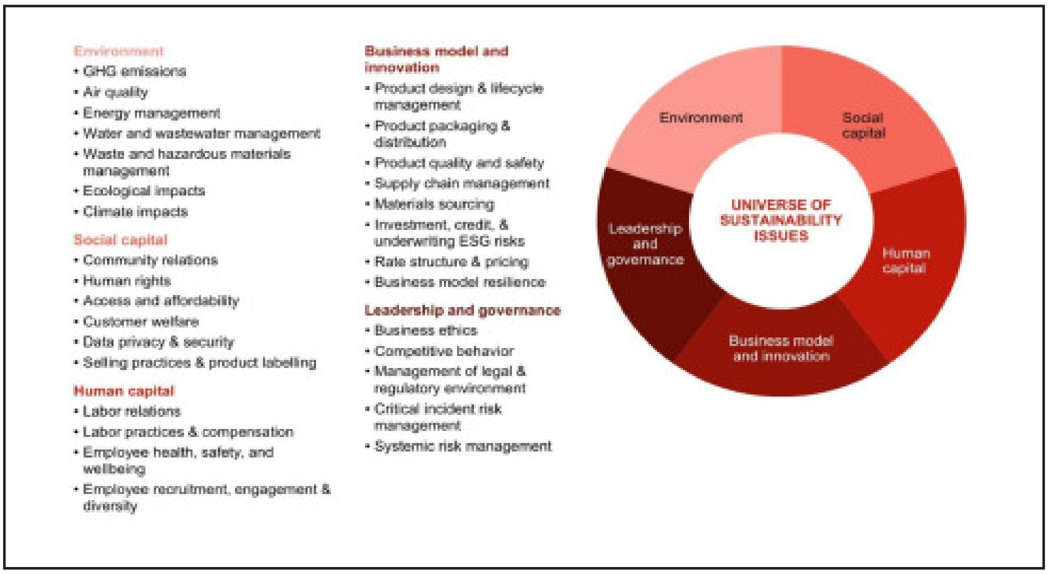
**Social Capital:** This dimension relates to the expectation that a business will contribute to society in return for a social license to operate. It addresses the management of relationships with key outside parties, such as customers, local communities, the public, and the government. It includes issues related to human rights, protection of vulnerable groups, local economic development, access to and quality of products and services, affordability, responsible business practices in marketing, and customer privacy.

**Human Capital:** This dimension addresses the management of a company's human resources (employees and individual contractors) as key assets to delivering long-term value. It includes issues that affect the productivity of employees, management of labor relations, and management of the health and safety of employees and the ability to create a safety culture.

**Business Model and Innovation:** This dimension addresses the integration of environmental, human, and social issues in a company's value-creation process, including resource recovery and other innovations in the production process; as well as in product innovation, including efficiency and responsibilityin the design, use phase, and disposal of products.

**Leadership and Governance:** This dimension involves the management of issues that are inherent to the business model or common practice in the industry and that are in potential conflict with the interest of broader stakeholder groups, and therefore create a potential liability or a limitation or removal of a license to operate. This includes regulatory compliance, risk management, safety management, supply-chain and materials sourcing, conflicts of interest, anticompetitive behavior, and corruption and bribery.

In developing its Provisional Standards, the SASB identified sustainability topics from an initial set of 30 broadly relevant sustainability issues organized under these five sustainability dimensions.




**Source: https://www.sasb.org/approach/sustainability-framework/**

Although the "universe" of sustainability issues served as a starting point for the SASB's Provisional Standards setting, this extensive list was refined through a series of steps designed to identify those issues reasonably likely to have material impacts on companies in an industry. Because each of these issues tends to have a different impact or consequence depending on the context in which it arises, sustainable corporate activities will vary from one industry to another, meaning each industry has its own unique sustainability profile. The disclosure topics included in SASB's industry-specific Provisional Standards are therefore a sub-set of this universe of sustainability issues, tailored to the industry's specific context.

## Benefits of Sustainbility Accounting

Sustainability accounting is a vital step towards achieving a sustainable global economy. Reporting enhances companies' accountability for their impacts and therefore enhances trust, facilitating the sharing of values on which to build a more cohesive society. The availability of sustainability information can be used by governments to assess the impact and contribution of businesses to the economy and to understand which issues are being tackled by which players.

Widespread sustainability reporting practices, creating transparency, can help markets function more efficiently and indicate the health of the economy; and help drive progress by all organizations towards a smart, sustainable and inclusive growth. Organizations can use reporting to inform their risk analysis strategies and boost their business. A growing number of companies see sustainability reporting as a means to drive greater innovation through their businesses and products to create a competitive advantage in the market.

Governments,businesses and stakeholders all directly benefit from it, and the positive impact on social, environmental and human rights issues is evident. Specifically, for organizations, sustainability reporting adds value in a number of areas:

**Building trust-** Transparency about non-financial performance can help to reduce reputational risks, open up dialogue with stakeholders such as customers, communities and investors, and demonstrate leadership, openness and accountability.

**Improved processes and systems -** Internal management and decision-making processes can be examined and improved, leading to cost reductions by measuring and monitoring such issues as energy consumption, materials use, and waste.

**Progressing vision and strategy -** Comprehensive analysis of strengths and weaknesses, and the engagement with stakeholders that is necessary for sustainability reporting can lead to more robust and wide-ranging organizational visions and strategies. Importantly, companies can make sustainability an integral part of their strategies.

**Reducing compliance costs-** Measuring sustainability performance can help companies to meet regulatory requirements effectively, avoid costly breaches, and gather necessary data in a more efficient and cost-effective way.

**Competitive advantage -** Companies seen as leaders and innovators can be in a stronger bargaining position when it comes to attracting investment, initiating new activities, entering new markets, and negotiating contracts.

**GRI Based Sustainability Reporting in India**

The Global Reporting Initiative (GRI) is an organization that produces a comprehensive sustainability reporting framework that is widely used around the world. It started with a vision of a sustainable global economy where organizations manage their economic, environmental, social and governance performance and impacts responsibly and report transparently. GRI has a mission to make sustainability reporting standard practice by providing guidance and support to organizations. It's about disclosure of organization's economic, environmental, social and governance performance in credible way and subsequently helping them to identify business risks and opportunities to the organization due to these parameters.

GRI provide framework to report organization's sustainability performance. It is known as the sustainability reporting framework and consists of three parts - (1) Sustainability Reporting Guidelines, (2) Sector Supplements and (2) The Technical Protocol - Applying the Report Content Principles. All it provides guidance on how organizations can disclose their sustainability performance in true manner. Organization of any size and type can use this framework to assess their performance indicators in economic, environmental, and social domain. Organization that creates their non-financial report based on GRI sustainability reporting framework can be considered as credible output aligned with applicable standards and norms. Such report can be used to demonstrate organizational commitment to sustainable development. It can also qualitatively and quantitatively used to measure and compare organization performance based on environment, social and economic dimensions. Considering the importance of sustainability in businesses, Ministry of Corporate Affairs, Government of India has launched Corporate Social Responsibility Voluntary Guidelines (2009). This voluntary CSR Policy addresses six core elements - Care for all Stakeholders, Ethical functioning, Respect for Workers' Rights and Welfare, Respect for Human Rights, Respect for Environment and Activities for Social and Inclusive Development. At this stage these are voluntary guidelines, but there is a possibility of mandatory guidelines too in the near future. The companies with GRI based sustainability reports in India have started accounting and then disclosing their impacts on the environment and society. Sustainability reporting is now becoming a standard practice for global companies and If Indian companies want to be competitive with their global counterparts; they need to adopt GRI based sustainability reporting framework positively.

**Trends in Sustainbility Accounting**

There are several key trends which are of interest to all organizations wishing to move towards sustainability:

**Increasing internalization of externalities** There is an increasing recognition that, in order for a market society to move toward sustainability, the pricing signals that influence behavior must include the consequences of that behavior. The mechanisms for internalizing externalities - such as taxes and compliance costs - are becoming more popular as legitimate policy instruments for governments to set the context within which organizations innovate. The most prominent example of this are the mechanisms from the Kyoto protocol, including the proposed EU-wide carbon emissions trading schemes. In these circumstances, organizationswhich understand and can measure their externalities will have a competitive advantage. Sustainability accounting is one way to achieve this.

T**he need and difficulty of integrating measures across sustainable development** Sustainability requires that attention is paid to all the different economic, social and environmental systems (or all the Five Capitals) now and into the future. Sustainable development is likely to be a dynamic activity where different dimensions are working in synergy. At present most measures or indicators only address one part of the puzzle. The importance of the need to integrate is matched by the difficulty in doing so. Integration requires the unbundling of hard issues such as:

**Boundaries and responsibilities -** Where does an organization's responsibilities end and another's begin? How can we consider an organization's individual responsibility when it is participating in a socio-economic system which only rewards certain sorts of behavior?

**Valuation methods -** Can the same judgements be applied to environmental and social valuation methods? The avoidance and restoration cost method give the cost to the organization of its impact on other parts of society. The cost to that third party may be much smaller, or much larger.

**Adding up and across -**The conversion of social and environmental impacts into monetary values makes it possible to add up the impacts and trade them off against each other. This opens up the possibility of comparing £1 worth of climate change damage with £1 of reduced impact from waste or £1 of contribution to the local economy. These trade-offs may not make sense from the sustainability perspective of living off the revenue rather than degrading the capitals. This point about comparing £1 of environmental or social impact also applies to comparing between £1 of impact between different years and between different companies.

**Accounting for what you can count -** An organization may not be aware of its impacts, or not be able to count them. The strength of using a stakeholder engagement methodology is that the stakeholders can provide an organization with information on an impact which otherwise might have been omitted. The challenges around integration form the starting point for considering areas for future improvements, such as more work on: external economic impacts, such as the local multiplier effect on local economies and how this contributes to the organization's own financial capital

Including positive external impacts, for instance, the work on the social impacts of alcohol considers social costs like health spending and lost productivity but no estimates of the social benefits of alcohol were made linking the values of internal and external flows to movement in internal and external stocks. creating more standardized and sector specific methods, to facilitate comparisons.

**Impacts on conventional accounting systems -** Sustainability accounting is seen as an extension of the conventional accounting system to allow it to face the challenge of sustainable development. As we argued in the section on intangible assets, it is possible to reframe many current-day accounting problems in terms of sustainability. In particular, the move to service economies and the call for improved governance has drawn out many of the limitations of conventional accounting. There are many developments in non-financial reporting - such as Balanced Scorecards - that are designed partly to finesse intractable measurement issues. We expect these developments to continue, and to increasingly build in sustainability measures such as sustainability accounting.

**Conclusion**

India has seen unprecedented economic growth in recent years resulting in growing demand for natural resources and has affected the environment as well. Sustainability Improvement speaks about the challenges of reporting within an organization as it demands a lot oforganizational effort to gather and monitor data. This can make it a challenging, time- consuming and costly exercise. Another challenge is the need for independent verification and assurance of reports to provide comfort to stakeholders, management and the board in mitigating the risks posed by sustainability issues.

According to British Telecommunications findings, although Indian companies are proactive towards sustainable issues, there are still many issues - inclusive employment, education, employment creation, health, corporate/government collaboration, land and displacement, natural resource management, climate change, corporate governance, solid waste and water - to be addressed by them. In fact, Indian companies are failing to come out with innovative approaches for addressing sustainable issues. Sustainability Reporting is not a mandatory requirement in India. Except for some high performing, visible companies, a lot of organizations in India haven't started using the GRI sustainability reporting framework effectively. Cement is the most compliant among this specific sample with 100% compliance with Banking & Financial services and Healthcare & Pharmaceuticals sector being the least compliant. The IT sector, with huge intellectual capital and most of its business coming from US, Europe and APAC markets, has been a very diligent reporter. Already, companies are drawing up their sustainability strategies from their boardrooms, collating their compliance levels and increasingly getting open about their impacts on social, economic and environmental fronts.

**Appendix - I**

India's Top 100 companies for Sustainability and CSR 2017

1. Tata Chemicals Ltd.
2. Tata Steel Ltd.
3. Tata Power Company Ltd.
4. Shree Cements Ltd.
5. Tata Motors Ltd.
6. Ultratech Cement Ltd.
7. Mahindra & Mahindra Ltd.
8. ACC Ltd.
9. Abuja Cements Ltd.
10. ITC Ltd.
11. Coca-Cola India Pvt. Ltd
12. Bharat Petroleum Corporation Ltd.
13. Infosys Ltd.
14. Cisco Systems India Pvt. Ltd.
15. Reliance Industries Ltd.
16. Larsen & Toubro Ltd.
17. Indian Oil Corporation Ltd.
18. Hindustan Unilever Ltd.
19. HCL Technologies Ltd.
20. Hindustan Zinc Ltd.
21. Steel Authority of India (SAIL) Ltd.
22. GAIL (India) Ltd.
23. Oil and Natural Gas Corporation Ltd.
24. Vedanta Ltd.
25. Jubilant Life Sciences Ltd.
26. JSW Steel Ltd.
27. Hindustan Petroleum Corporation Ltd.
28. Toyota Kirloskar Motor India
29. YES Bank Ltd.
30. Hindustan Construction Company Ltd.
31. Wipro Ltd.
32. Tata Consultancy Services Ltd.
33. Maruti Suzuki India Ltd.
34. Dr. Reddy's Laboratories Ltd.
35. Adani Power Ltd.
36. Dabur India Ltd.
37. Tech Mahindra Ltd.
38. Cummins India

39. Apollo Tires Ltd.
40. HDFC Bank Ltd.
41. NMDC Ltd.
42. Nestle India Ltd.
43. Jindal Steel & Power Ltd.
44. Chambal Fertilizers& Chemicals Ltd.
45. Axis Bank Ltd.
46. Reliance Infrastructure Ltd.
47. Bharat Heavy Electricals Ltd.
48. Oil India Ltd.
49. Godrej Consumer Products Ltd.
50. IndusInd Bank Ltd.
51. Mahindra & Mahindra Financial Services Ltd.
52. Jain Irrigation Systems Ltd.
53. Power Grid Corporation of India Ltd.
54. Siemens Ltd.
55. Rastriya Chemicals & Fertilizers Ltd.
56. Adani Ports & Special Economic Zone Ltd.
57. Bajaj Auto Ltd.
58. NTPC Ltd.
59. Hindalco Industries Ltd.
60. Asian Paints Ltd.
61. Dalmia Bharat Group
62. Bharat Electronics Ltd.
63. Idea Cellular Ltd.
64. Bharti Airtel Ltd.
65. Bosch Ltd.
66. Cairn India Ltd.
67. Tata Global Beverages Ltd.
68. ABB India Ltd.
69. Titan Company Ltd.
70. Coal India Ltd.
71. Hero MotoCorp Ltd.
72. National Aluminum Company Ltd.
73. IDFC Ltd.
74. Havells India Ltd.
75. Godrej Industries Ltd.
76. GMR Infrastructure Ltd.
77. Mangalore Refinery and Petrochemicals Ltd.
78. Chennai Petroleum Corporation Ltd.
79. United Spirits Ltd.
80. State Bank of India
81. Tata Communications Ltd.
82. Rural Electrification Corporation Ltd.
83. Aditya Birla Nuvu Ltd.
84. Welspun Corp Ltd.
85. Lupin Ltd.
86. Union Bank of India
87. Kotak Mahindra Bank Ltd.
88. Jaiprakash Associates Ltd.
89. Marico Ltd.
90. Glenmark Pharmaceuticals Ltd.
91. NHPC Ltd.
92. Eicher Motors Ltd.
93. Sun Pharmaceutical Industries Ltd.
94. Reliance Communications Ltd.
95. Punjab National Bank
96. Grasim Industries Ltd.
97. Bharat Forge Ltd.
98. Apollo Hospitals Enterprise Ltd.
99. Nayeli Lignite Corporation Ltd.
100. Exide Industries Ltd.

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