

A MULTI-DIMENSIONAL ETHICAL APPROACH TO ACCOUNTING AND REPORTING PRACTICES

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Abstract: Purpose – The purpose of this research is to find out the multi-dimensional ethical approach to accounting and reporting practices going on in India and abroad. What has been the shift in Reporting Practices by Indian companies? What drives the Indian companies to report on the non-financial matters?

Design/methodology/approach – This paper mainly focuses on the inclusion of Non-Financial Matters in the Corporate Annual Reports. An Empirical Survey was carried out and the questionnaires were administered to 122 respondents comprising of 75 academicians and 47 chartered accountants. This paper compares the perceptions of academicians and accounting professionals on the ethical reporting practices of the Indian companies.

Findings – The results were tested using the t-test analysis. The research suggests that more companies should report on their environmental, social, and corporate governance performance and find a way to express them in their Annual Reports and the reporting of data regarding the carbon emissions, energy use, pollution, impact on the local economy, etc., should be made mandatory for companies.

Research limitations/implications – The research included respondents who are currently living in Delhi. For more generalized opinion nationwide survey can be carried out. Another important category of stakeholder for judging the usability of Corporate Annual Reports could be the Institutional Investors.

Practical implications – The results of this study would help the policy makers in framing the guidelines for standardized annual reports, synergizing social and business interest needs on top priority. Corporate philanthropy needs to transform into the realm of core business and corporate social responsibility. Integrated reporting could pave the way for synthesizing financial and non-financial reporting into one form and give a holistic view of companies' strategies to its stakeholders incorporating new dimensions of IFRS.

Social implications – More emphasis on Non-financial matters will certainly contribute in making the corporates more responsible to the society, environment, and to the future generations.

Key words: Corporate Annual Reports, Sustainability Reporting, Environmental Reporting, Multi-dimensional ethical reporting, Integrated Reporting

Businesses are now operating in an “age of transparency”. Demands for greater information on corporations' activities come from all sectors of society, including shareholders, consumers, communities, special interest groups, and governments. Under a New Governance perspective, disclosure of corporations' performance information is necessary to ensure accountability and to provide information that allows stakeholder participants to identify best practices and learn from the experiences of various corporations. In more recent years, growing social (e.g., poverty, deteriorating social equality, and corruption) and environmental (e.g., carbon emissions, water usage, and waste) concerns have pressured companies towards a more systematic treatment of sustainability reporting; through reporting, the firm would disclose how it is utilizing, developing (or depleting) and more generally affecting human capital and natural resources. Furthermore, due to several high-profile corporate scandals

and the recent global financial crisis, there has been a general sense of disbelief regarding companies' ability to self-improve and a belief that existing company disclosures tell a partial story regarding past corporate performance and future prospects. The global economic fallout and rising concern with sustainable growth and climate change has spawned a new breed of ethical investors. They are urging companies to report on the environmental and social costs of their operations and improve corporate governance.

Ethical approach to accounting and reporting

A business or company is considered to be ethical only if it tries to reach a trade-off between its economic objectives and its social obligations, such as obligations to the society where it exists and operates; to its people for whom it pursues

economic goals; to the environment, from where it takes its resources; and the like (Rituparna, 1999). The dramatic collapse of some big corporates such as Enron, WorldCom or the well-known auditing firm Anderson in the US and Satyam Software Services in India showed that even successful companies could ultimately come to grief, if their managers did not practice the basic principles of honesty and integrity. Even though code of conduct or a set of values cannot prevent unethical activity by top management completely, but they can at least act as a means of detecting such activity before it is too late (Sharma, 2011). A company should possess a number of divergent qualities to be accountable to its society. In the literature, at least four corporate virtues can be found.

1. *The reliable company.* According to Cadbury (1987), Openness, is the best way to unarm stakeholders who are wary of a company's aims or actions. Needless to say, the reliability of a company will be called into question should stakeholders discover that the company withheld relevant and potentially harmful information from them (Cormier and Gordon, 2001).
2. *The responsible and accountable company.* Freedom implies responsibility; and responsibility implies accountability; and accountability implies transparency. Corporate social responsibility implies corporate social accounting and *vice versa*.
3. *The company with integrity.* The integrity of the company is also sometimes taken as starting point. Petrick and Quinn (1997) contend that by keeping stakeholders informed, a company asserts its authenticity and integrity. Hiding information on important and relevant matters from stakeholders is undesirable as it impairs the integrity of the company.
4. *The truthful company.* Some scholars advance truthfulness as an important virtue. Solomon (1993), is of the view that honesty is the first rectitude of conduct of business. Honesty provides stakeholders access to the facts on matters that interest them. A truthful company is open and transparent to the public.

Ethical reporting gives the result in following ways: 1. Improved functioning of the market. 2. Reduction of socially unacceptable behavior. 3. Contribution to the resolution of social problems.

Introduction – Corporate Annual Reports (CARs) & their significance as communication medium

The aim of accounting is to communicate economic message on the result of business decision to the users from time to time. Thus corporate reporting is total communication system between a company and users. Company Annual Report is a significant medium of corporate reporting today, although information about a company's affairs can be communicated through other media also e.g., prospectus, financial press release, interim report, media news about company, and personal contact with company officials.

Despite the existence of different sources of information, the annual report is regarded as the most important source of information about a company's affairs. All groups have access to it; their attitudes may be influenced by it. Its importance looms large not only in company-shareholder relations but also in company-society relations.

The traditional formal communication vehicle between a publically listed entity and its interested constituencies is the **Corporate Annual Report**. Nowadays CARs are carrying more and more information and the intention is to present this in such a way that it satisfies the relevant economic needs of various stakeholders.

The bulk size of annual reports is reflecting the growing disclosures and details that annual reports convey, e.g. the Infosys annual report of 1995–96 contained 96 pages and the one for the 2009–10 had 166 pages (including Sustainability report). If we look in company to company basis, by and large in physical/ quantum terms, the disclosure has probably on an average doubled over the last ten years. The Annual Reports generally, contained a director's report, the auditor's report, the financial statements- Balance Sheet, Profit and Loss Account and Schedules along with certain additional information required by the companies Act like statement of particulars of employees, quantitative data regarding production, turnover and statement regarding energy conservation measures, and so on.

Shift in disclosure patterns of CARs

If we compare that with today's disclosures, both statutory and voluntary, we find a major shift- a change for the better.

The primary reasons for this change are:

- The growing number of stakeholders is now interested in using the annual report.
- The changing/growing expectations of users-stakeholders, and
- The requirements of newer legislations.

Some companies show CSR Report, Sustainability Report separate and most make a section in their Annual Report for these matters. The amount of information disclosed by MNEs in corporate reports has expanded considerably in recent years. The major source of pressure for increased disclosure has been the financial and investment community. Both MNEs and standard setting bodies in countries with well-developed securities markets, such as the United States, the United Kingdom, France, Germany, and Japan, have been concerned primarily with responding to pressures from this direction. There has also been something of an explosion in the demand for information by a wide range of other participant groups including governments, trade unions, employees, and the general public.

Studies reveal that internationally listed MNEs tend to disclose more information voluntarily. There were a significant negative association between disclosure and inflation, possibly owing to the higher inflation levels in emerging markets. At the same time, disclosure was significantly positively associated

with market capitalization, number of foreign listings, dividends, and the use of a large multinational auditor.

Disclosure behavior may also be explained by different attitudes and practices relating to corruption. If corruption hinders economic development, then it may also hinder financial reporting transparency due to the secretive nature of the corrupt activity itself.

La Porta et al. (1998) include corruption as one of the negative enforcement variables. They demonstrate a negative relationship between corruption and accounting standards: the higher the level of corruption in a country, the poorer the quality of its accounting.

Following is the list of contents of Annual Report of a Company. Though there are not stringent patterns to be followed, as far as non-financial information is concerned, these items are generally found in Annual Reports of reputed companies, which are leaders in all respects.

Contents of a Standard Annual Report of a Progressive Company

Theme: This part covers a new idea which communicates the ethos, vision and setting of the company, its team and its associates and shares this in text and pictures bringing the company and its image live in the minds of the readers.

The year at a glance, Letter to the shareholders, Awards for excellence, CEO and CFO certification, Directors' report-Directors' responsibility statement, Particulars and information pursuant to Company's Act 1956- on conservation of Energy, R & D, Foreign Exchange, particulars of employees, etc., Auditors' certificate on Corporate Governance, Financial statement- Indian (GAAP), Management's discussion and analysis of financial condition and results of operations. Auditors' report, Balance Sheet, Profit and Loss Statement, Cash Flow Statement, Schedules, Balance Sheet abstract and company's general business profile, Consolidated Financial Statement- Indian GAAP. Risk Management Report, Corporate Governance Report, Additional Information, Shareholder Information, Share-price Chart, Selective Data, Ratio Analysis, Statutory Obligations, Human Resource Accounting, Brand Valuation, Balance Sheet (including intangible assets), Current-cost-adjusted financial statements, Intangible assets score sheet, Economic Value Added (EVA) Statement. Management Structure, Charitable initiatives, Report on Environment, Health, & Safety.

Literature review

This review examines the disclosure practices adopted by various corporates and the factors governing such changes. Mastrandonas and Strife (1992) find that stakeholders demand disclosure of company's environmental information because of the magnitude of liabilities and cost associated with environmental issues. They say that corporate should consider

using environmental annual reports to communicate with their stakeholder and that will foster their partnership. (Kolk and Pinske 2011) analyzed to what extent corporate governance has become integrated in MNEs' disclosure practices on CSR. Based on an analysis of CSR reporting of Fortune Global 250 companies, findings show that more than half of them has a separate corporate governance section in their CSR report and/or explicitly links corporate governance and CSR issues. It was found that MNEs which disclose information on a wider variety of social and environmental issues and frame CSR with a focus on internal issues are more inclined to integrate corporate governance in their CSR reporting. (Madhani 2011) The annual reports of twenty (20) Indian corporate entities for the financial year 2007-08 were taken as sample. The sample company includes ten (10) public sector companies and equal number of private sector companies. The study has revealed that corporate entities have put some efforts to preserve the environment. Out of sample companies 75% (7 public and 8 private) of them disclosed that they have put emphasis on reduction of emission of greenhouse gases from their industrial plants. Again, 60% of the sample companies have undertaken afforestation drive as trees can contribute important role for the protection of environment and maintaining ecological balance by sinking carbon dioxide and generating oxygen. 65% of the sample (7 public and 6 private) companies have adopted policy of reduction in uses of natural resources, reuse of such resources and recycling of the used resources.

(Murthy, 2008) study conducted on 16 top software firms in India concluded that human resource category was most frequently reported attributes followed by community development activities and environmental activities was least reported. The annual reports in the sample were analyzed in order to quantify the voluntarily disclosed corporate social information using the content analysis technique. The study was sector specific and covered only software firms. (Choi and Mueller, 2007) Corporate operations, for the most part, concern themselves with production processes and technological innovation. These activities, however, do not take place in a social vacuum and corporations both domestic and multinational are being called upon to account for social responsibilities that transcend purely "bottom line" concerns. Social responsibility disclosures are an integral feature of this behavioral phenomenon.

Finally, corporations should recognize in self-interest the importance of anticipating public opinion on matters of social concern. A reputation of being an enlightened employer with a sincere regard for environmental responsibilities translates directly into future economic dividends such as low levels of industrial disputes and favorable government relations. (Jones, 2010) Companies could provide a statement of their corporate philosophy towards the environment in the annual report or stand-alone environmental reports. In particular, identifying any threats they recognize and, in particular, whether their business activities potentially contribute to those threats. Whether the company recognizes a duty to act and what in broad terms it intends to do. A statement of its attitude to sustainable development and how it

operationalizes sustainable development should be the part of its communication with its stakeholders. Compliance with a clear comprehensive set of time-series performance indicators either internally devised or externally such as the GRI. These should embrace, inter alia, targets on water, waste, recycling, energy, pollution, biodiversity and, in particular, given the current concerns with climate change comprehensive details of air emissions, particularly tonnes of carbon dioxide (Daske and Gebhardt, 2006). The mandatory adoption of IFRS has been motivated by the need to ensure greater comparability and a higher transparency and quality of financial reporting across the EU member states. The perceived disclosure quality has increased significantly for companies applying internationally recognized accounting standards, particularly IFRS, both statistically and economically. It does not hold only for firms which have voluntarily adopted IFRS or U.S. GAAP, but also for those which mandatorily adopted such standards in response to requirements by the German Stock Exchange for specific market segments.

(Pramanik, 2008) Protecting the environment is the social responsibility and commitment of corporations towards the society. It is believed that corporation is responsible for the environmental crisis and so they should pay for this (cost-benefit trade off). However, reporting is mostly guided by standards, guidelines, etc., and, we do not have any standards designed for such disclosure. So, such reporting is still voluntary that has no specific format and style. Voluntary disclosure generally leads to non-disclosure and mandatory disclosure leads to nominal disclosure. Thus, environmental disclosure should have both type of orientation, as it is a question of life and sustainability. The level, extent, and style of disclosure are not satisfactory at all in any respect. The professionals and respective regulatory authorities should come forward with stricter standards and guidelines to this issue that is the demand of time. (Dhar and Mitra, 2010) reviewed annual reports of 100 companies randomly selected out of BSE 500 index. CSR disclosure items were handpicked from the annual reports and an un-weighted disclosure index was conducted. The study used content analysis and the Overall Corporate Social Responsibility Disclosure Scores were calculated. The study found that there is scope for improvement in corporate social reporting practices in India. Although, a few companies have started to publish separate sustainability or corporate social report, there is lack of objective and informative reporting as demonstrated by this survey. (Firoz , 2010) This research paper made a critical appraisal of the contemporary environmental accounting literature and examined whether IFRS can contribute towards monitoring and protection of environment. The study concluded that the organizations are required to enhance the scope of environmental financial reporting from the present reporting practices as recognition and measurement of environmental benefits, environmental costs, environmental assets, and environmental liabilities.

(Singh & Vasudeva, 2013) This study underpinned the importance of imparting ethical education to Accounting Professionals. The study pointed out at the role of accounting professionals who failed to report or did not report material

manipulations in the financial results of the companies who were found scandalous. An association was found between ethical values of accounting professionals and their choices in ethical dilemmas in their profession. Correlation scores in their study revealed that there is a statistically significant low degree of positive correlation between value assessment ratings and ethical dilemmas in scenarios. The study recommended that the Professional bodies should encourage compliance with ethical reporting practices in accounting by both carrot and stick approach.

Singh et al. (1999 and 2000); Singh (2001, 2002 a & b, and 2003); Singh & Rastogi (2001); and Singh & Goel (2001 & 2007) conducted a number of studies on values of professionals. The studies strongly underlined the importance of building up ethical values of professionals.

Financial vs. Non-Financial Reporting

During the initial phases, when business was organized as sole proprietorship or partnership firms, profit was the dominant barometer of the success of business. Subsequently, with the formation of joint stock companies and the development of stock markets, corporate performance was judged by market capitalization, share price and certain financial ratios such as Earnings per Share (EPS), Return on Equity (ROE), etc. Now in the 21st century, corporate performance will be judged by *corporate social responsibility (CSR)* whose disclosure will fall under **non-financial reporting**. One of the critical parameters to be evaluated in this context would be the value created by the companies for the society and whether such value creation is going to be sustainable. Just as financial reporting is not only concerned with returns but the risk return trade-off, similarly, non-financial reporting is also about the risks that one creates in the society. Following picture shows the various forms of NFR.



Figure 1

Sustainability and its Reporting

Sustainable Development is defined as development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. Corporate Sustainability is the ability of the

corporates to maintain economic prosperity in the context of environmental responsibility and social stewardship. It is a business approach that creates long-term stakeholder value by embracing opportunities and managing risks deriving from economic, social, and environmental developments.

Sustainability reporting has become more relevant and important in today's context not only from social or environmental concerns, but because, globally, we have come to realize that our goal is not just growth and profits, but we are looking at inclusive growth. And, if the growth process is not equitable, it cannot be sustainable. If inclusive growth has to be a permanent agenda item in our growth process, then it has to be sustainable. Today, many of world's problems have been attributed to the lack of inclusive growth.

Environmental Reporting

Incorporation of environmental issues into the Corporate Annual Report can be labeled as **Environmental Reporting**. It encompasses voluntary and involuntary disclosure of its activities on the environment. Accounting and Disclosure of environmental aspects have been emerging as **an important dimension of reporting practices**.

A concern for the environment is an indispensable part of our business philosophy. In India we do not have any formal guidelines provided by government or industry so in absence of this, enterprises design their own mechanism and follow certain practices for disclosure. All companies should also ensure that their activities do not adversely affect the environment and the laws relating to the environment should be followed in letter and spirit.

Social Reporting

The corporations cannot act as isolated economic entities with indifferent attitude towards the society. It cannot succeed in a society that suffers from social unrest like economic disparity, inequality and social justice. There is a need to ensure that there is no social discontent and there are adequate provisions for health, education, literacy, etc. Thus, the companies should serve the society to return at least some part of what they have gained.

Studies explain that the structure of reporting has changed considerably over the years. Whereas in the 1990s, most reports focused on environmental indicators only, today, reports tend to be more thorough and bring together economic and social as well as environmental data, or triple line reporting. Elkington (1997) coined the term "**triple bottom line**" to describe social, environmental, and financial accounting.

Advantages of Non-Financial Reporting

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 yardstick to compare the performance
- Means of ensuring corporate governance
- Pathway for long-term discourse with reporting organization.

To sum up:

- Corporate that focus on Sustainability Reporting outperforms 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.

All business activities have some environmental and social impact that typically results from subpar and inadequate environmental and social practices, including:

- Over-use and wastage of natural resources
- Environmental deterioration caused by continuing polluting activities
- Constant damage caused by previous polluting practices
- Damage caused by accidents and mishaps
- Use of explosives and other environmentally sensitive materials

All these impacts have ramifications to business. The risks that such impacts create can be legal, financial, and reputational, and companies themselves are increasingly accountable for the effects their portfolios have on the environment and society. **The costs that can be incurred by a business operating without regard to environmental and social issues include:**

- Pollution cleanup costs
- Fines
- Increased waste handling costs
- Costs from damaged assets with reduced value
- Legal claims
- Regulatory delays
- Reduced public regard and reduced sales

Integrated reporting: the need of the hour

Integrated reporting i.e., representation of the **financial** and **non-financial** performance of a company in a single report, doesn't only mean merging **financial** and **sustainability** reports into one report, its true meaning is to link sustainability strategy to business strategy and help the company and its stakeholders identify the non-financial priority areas. Integrated Reporting demonstrates the linkages between an organization's strategy, governance, and financial performance and the social, environmental, and economic context within which it operates. By emphasizing these connections, Integrated Reporting can help business to take more sustainable and viable decisions and will empower investors and other stakeholders to discern how an organization is really operating.

Why have one report?

Releasing one integrated report which illustrates the financial as well non-financial performance of a company is beneficial as it can help:

- demonstrate that the company is serious about incorporating sustainability into its core business
- communicate the impact of a company's operations on environment and community and illustrate a company's commitment to mitigating the effects
- correctly identify ESG related risks and opportunities and help provide a competitive edge over its peers in the long term – in several cases, this can help lower the cost of capital
- a company make informed decisions and improve its overall performance
- identify cost savings by analyzing financial and non-financial metrics together
- increase internal collaboration between different departments and create a more streamlined organization
- increase engagement with internal and external stakeholders through consistent and balanced reporting
- address reputational risk as integrated reporting provides a medium to communicate strategy and identify gaps, thus helping build trust amongst stakeholders
- increase brand value and customer loyalty

Global initiatives in Sustainable Reporting (Development of codes and CR index)

A strong corporate reporting infrastructure is the key to improving transparency, fostering investor confidence, facilitating the mobilization of domestic and international financial resources, and promoting financial stability. Over the last decade, a series of international corporate reporting standards and codes have been developed. The increasing

pace of globalization and international economic integration has strongly encouraged the application of such standards and codes worldwide.

International Standards of Accounting and Reporting

The **Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)** was created by the United Nations Economic and Social Council (ECOSOC) in 1982, and is the only intergovernmental expert body focused on corporate transparency and accounting issues. Hosted by United Nations Conference on Trade and Development, ISAR's work covers a range of financial and non-financial corporate reporting issues. Its mission is to support sustainable economic development and financial stability by contributing to improvements in corporate transparency. UNCTAD hosts the annual session of ISAR at the United Nations headquarters in Geneva. Several hundred experts from more than half of UN member States participate in the annual session in Geneva. Participants include: policymakers, regulators, and representatives from academia, civil society, private industry and various national, regional, and international accountancy organizations.

Over the last two years, UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been working towards developing a guiding tool on capacity-building for high quality corporate reporting. (UNCTAD, 2008)

Corporate Responsibility Index

The Corporate Responsibility Index (CRI) was designed by Business in the Community (BITC). As a unique movement of 700 member companies, BITC's purpose is to inspire, challenge, engage and support business in continually improving its positive impact on society. The idea of an index was first raised in BITC's 2000 *Winning with Integrity* report. Following this report BITC conducted a survey of UK businesses in 2001, *Investing in the Future*, which identified a need for reliable, standardized information that would enable a company's performance to be compared with that of its peers. On 27 September 2010, the 2011 Corporate Responsibility Index was launched by BITC, in cooperation with the Centre, as a Global Index run by BITC directly from the UK for all participating UK, Australian and New Zealand companies. (www.corporate-responsibility.com.au/)

UK Experience of CRI

The UK experience of the Corporate Responsibility Index has been highly successful, with 122 businesses participating in its first year in 2002, including ninety-three companies

from the FTSE 350 and fifty-three from the FTSE 100. In the second year 139 companies participated, with an 85% retention rate.

CRI in Australia

St James Ethics Centre recognized the need in Australia for a voluntary, business-led Index with sound methodology and focusing upon corporate responsibility. The Ethics Centre was introduced to Business in the Community through Jane Tewson from Pilot light Australia (www.pilotlight.org.au).

St James Ethics Centre – CRI

Business in the Community generously agreed to donate the Corporate Responsibility Index under license to St James Ethics Centre to be implemented in Australia with the assistance of *The Sydney Morning Herald* and *The Age*, and supported by Ernst & Young who validated the results until 2008 when PricewaterhouseCoopers took over validation.

CRI is expanding

On 27 September 2010, the 2011 Corporate Responsibility Index was launched by BITC, in cooperation with the Centre, as a Global Index run by BITC directly from the UK for all participating UK, Australian, and New Zealand companies.

Key Areas of CRI

The CRI enables companies to assess the extent to which corporate strategy is integrated or translated into responsible practice throughout the organization. The CRI covers the management of four key areas: Community, Environment, Marketplace, and Workplace and finally performance in a range of social and environmental performance and impact areas.

Measurement of CRI

The components of the Index model are weighted as follows:

Section 1: Corporate Strategy – 10% of total score

Section 2: Integration – 22% of total score

Section 3: Management Practice - 26% of total score (includes Community, Environment, Marketplace, and Workplace management sections)

Section 4: Performance and Impact - 36% of total score (includes a choice of Social and Environmental Impact areas)

Section 5: Assurance & Disclosure - 6% of total score

Each management section of Community, Environment, Marketplace, and Workplace is equally weighted, and each

of the social and environmental impact areas is also equally weighted.

Global Reporting Initiative (GRI)

The GRI is a network-based organization that pioneered the world's most widely used sustainability reporting framework. GRI is committed to the Framework's continuous improvement and application worldwide. GRI's core goals include the mainstreaming of disclosure on environmental, social, and governance performance. One of the most widely used frameworks for reporting on sustainability is the Global Reporting Initiative's G3 Guidelines. This framework has been used in nearly 7500 reports to report on sustainability worldwide and more than 100 GRI reports have been published by Indian companies so far. Global Reporting Initiative (GRI) is a global initiative to standardize NFR (Non-Financial Reporting) which the institutions adopt and has become the de-facto standard internationally. GRI is a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, social, and environmental dimensions of their activities, products, and services. The aim of the Guidelines is to assist reporting organizations and their stakeholders in articulating and understanding contributions of the reporting organizations to sustainable development. (www.globalreporting.org)

Sustainability Reporting (or Non-Financial Reporting): Indian Scenario

The level of sustainability reporting in India is in its infancy and still evolving. In India, there are various drivers behind the increase in dialogue, discussion, and publication of sustainability reports – drivers that are somewhat different from other parts of the world. For example, pressure from the NGO sector is low in India when compared to other countries. Pressure originates rather from increasing involvement in the global business environment. Many companies issuing CSR corporate communications now actively report on the social dimension as well. For institutions in India one of the primary drivers of their involvement in activities in social and environmental spheres is their **reputation** and **branding**.

There are many reasons for this change in mindset. Foremost is the increasing globalization of business. As more Indian companies expand internationally and acquire interests overseas, demands on transparency from a more "global audience" have put pressure on Indian companies to start reporting on sustainability issues. Within India, there has also been a change in the mindset of stakeholders on matters pertaining to environmental and social responsibility. Recently, government faced public protests and pressure to refuse entry to foreign ships that were brought to India for

decommissioning, as they contained large amounts of asbestos and other harmful substances. While the general public opinion on sustainability issues is still evolving, companies taking the first steps can expect intense public scrutiny, which again highlights the need for transparent reporting on operations. Another significant thrust has been the role of government as a stakeholder. India has stringent laws on labor, environment, health, and safety. Over the past few years the government has become increasingly proactive in addressing enforcement. Intense media attention and scrutiny on corporate social responsibility has also forced the companies to take more cognition of their activities and engagement with stakeholders.

Reporting standards

While currently there are no officially recognized guidelines or reporting standards on sustainability reporting (by accounting or regulatory bodies) in India, there has been an increasing trend amongst companies to publish a variety of information relating to themes such as community, corporate social responsibility, environment, health, and safety. Indian companies, therefore, present diversity in content and format under the overall umbrella of sustainability reporting. Traditionally, while many organizations both in the public and private sector practice some sort of corporate social responsibility programmes, reporting has not been a common practice. A survey conducted in 2003 by “Partners in Change” showed that 70 per cent of the participating companies do not have a CSR policy, but are nevertheless doing “good work”. However, over the past few years, there has been an increasing awareness and activity in the CSR field and many companies have started some reporting on sustainability issues, albeit in limited and diverse formats.

Many organizations in India have certified environmental management systems, based on ISO 14001. Consequently, data on environmental indicators are more readily available and many companies have started reporting by issuing environmental reports which also include health and safety data. It is only after this initial phase that companies in general started developing reporting formats that conform to the GRI Guidelines. In accordance with global trends, some Indian companies have also started seeking independent assurance on their sustainability reports.

Reporting under environmental legislation in India

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 analyzed 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.

Reporting under the Companies Act in India

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 134 of the New Companies Act 2013, 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.

Reporting on social matters

Traditionally, there has been a very thin line of demarcation between **socially aware entrepreneurship** and **philanthropy**. Businesses today are becoming more aware

of the business case that social responsibility is not limited to acts of charity and that it requires internalization and systemic expression. In 1980, Tata Steel released a "Report of the Social Audit Committee" which explored whether the company had fulfilled the objective contained in the Articles of Association regarding its social and moral responsibilities to consumers, employees, shareholders, the local community, and society. Since then, there has been a growth and consistent improvements in the quality of reporting of Indian companies. Sustainability reporting in India often starts as a voluntary initiative amidst limited pressure from local NGOs/civic society to publish sustainability reports. Reports are often produced and used for internal purposes. The GRI has been working with the Confederation of Indian Industry (CII) for a better understanding of the Indian context of reporting and ways of applying the international framework standard domestically.

Objectives

Following are the objectives of the study:

- *The purpose of this research is to find out the practices of accounting and reporting in India.*
- *What has been the shift in Reporting Practices by Indian companies?*
- *What drives the Indian companies to report on the non-financial matters?*
- *This paper mainly focuses on the inclusion of Non-Financial Matters in the Corporate Annual Reports. This paper also compares the views of Academicians and accounting professionals on the ethical reporting practices of the Indian companies.*
- *The purpose of this study is to determine the extent to which Corporate Annual Reports "CARs", serve the information needs of the users and how far it succeeds in disseminating company's concern about the environmental and social aspects and the efforts made by it in the same directions.*
- *To see if there is any difference in the opinions of Users of "CARs" and preparers of them with regard to the use of XBRL, motives behind CSD practices, relevance of sustainability reporting etc.*
- *To study the development of international corporate reporting standards and codes and the Indian scenario.*

Research Methodology

This research is based on primary as well as secondary data. An Empirical Survey was carried out and the structured questionnaires were administered to the participants of survey. Two set of questionnaires were prepared, one for academicians and the other one for accounting professionals. All the respondents in Academician category were from Delhi University. Total 75 academicians from the various colleges (SRCC, Hans Raj College, Hindu College, Shaheed

Bhagat Singh College), and Department of Commerce, Delhi School of Economics responded to the questionnaires. In the Accounting Professionals category a total of 47 Chartered Accountants from various firms of Delhi (Ernst & Young, KPMG, Luthra & Luthra, Deloitte India, Interfreight Uganda limited) responded to the questionnaires. The total sample size of usable questionnaires was 122.

Judgmental sampling design has been used to identify the individuals who have the required information. Only those who had sound knowledge of Accounting and Annual Reports were chosen for participating in survey. To frame the questions, Annual Reports of BSE SENSEX companies as reported on 06 May 2011 were downloaded and content analysis was conducted on these reports to derive content related information. Most recent reports available that dealt with environmental and/or social issues, health and safety, corporate responsibility, sustainability, social or similar types of CSR related information were collected and made an inter-firm & intra-firm comparison of contents of these reports. These were mostly stand-alone reports published adjacent to the annual financial report. However, there were some firms that had no separate CSR report but a financial report that contained a substantial section on CSR, which were analyzed. Only reports that covered 2009/2010 or later were included. To get the reports websites of the respective companies were browsed. The questions were framed in such a way as to get the maximum idea of the perception of the experts with regard to inclusion of non-financial items in reports and the credibility of corporate annual reports. A 5 point Likert scale has been used to elicit the opinion of respondents about the questions. 1. Strongly Disagree (SD) 2. Disagree (D) 3. Unsure (U) 4. Agree (A) 5. Strongly Agree (SA). The responses given by Academicians were compared with the responses of Accounting Professionals (CAs) using MS Excel, and the difference in their mean score has been tested using the **t-test** analysis after testing normality of distribution and homogeneity of variances. Common statements of the two questionnaires with their mean, median, standard deviation and frequency percentage are shown in table 4 and 5.

Hypotheses

The scores of the two sets of respondents were tested against the following three hypotheses:

HO1: There is no significant difference of opinion between Chartered Accountants and Academicians with regard to making mandatory, "the public disclosure of environmental effects of processes within the organizations". [Null hypothesis 1]

HA1: There is a significant difference of opinion between Chartered Accountants and Academicians with regard to making mandatory, "the public disclosure of environmental effects of processes within the organizations". [Alternate hypothesis 1]
HO2: There is no significant difference of

opinion between Chartered Accountants and Academicians “that public disclosure of company information could lead to a decrease in corrupt practices and may enhance transparency”.

[Null hypothesis 2]

HA2: There is a significant difference of opinion between Chartered Accountants and Academicians “that public disclosure of company information could lead to a decrease in corrupt practices and may enhance transparency”. [Alternate hypothesis2]

HO3: There is no significant difference of opinion between Chartered Accountants and Academicians about “the usefulness of financial reporting in digital form making use of eXtensible Business Reporting Language (XBRL)”. [Null hypothesis 3]

HA3: There is a significant difference of opinion between Chartered Accountants and Academicians about “the usefulness of financial reporting in digital form making use of eXtensible Business Reporting Language (XBRL)”. [Alternate hypothesis 3]

These hypotheses have been tested using t-test as data distribution was found to be normal.

Analysis and findings

The following are the results as shown in Table 1 which have been used for testing **Hypothesis 1 (HO1)**.

Table 1

Making mandatory the public disclosure of environmental effects of processes within the organizations	
t-Test:	
	Academicians' view
Mean	4.573
Variance	0.2749
Observations	75
Pooled Variance	0.4833
Hypothesized Mean Difference	0
Df	120
t Stat	5.09
P(T<=t) one-tail	0.00
t Critical one-tail	1.65
P(T<=t) two-tail	0.00
t Critical two-tail	1.979

As from the above result, it can be seen p value is less than 0.05, we reject our null hypothesis. Hence, there is a significant difference of opinion between Chartered Accountants and Academicians with regard to making mandatory, “the public disclosure of environmental effects of processes within the organizations”. Academicians are more inclined to make the

environmental disclosure mandatory. (Mean score 4.573).

The following are the results which have been used for testing **Hypothesis 2 (HO2)**.

Table 2

The public disclosure of company information could lead to a decrease in corrupt practices and may enhance transparency.	
t-Test:	
	Academicians' view
Mean	4.013
Variance	0.4457
Observations	75
Pooled Variance	0.599
Hypothesized Mean Difference	0
Df	120
t Stat	0.240
P(T<=t) one-tail	0.405
t Critical one-tail	1.657
P(T<=t) two-tail	0.810
t Critical two-tail	1.9799

As from the above result, it can be seen that P value is more than 0.05, so our null hypothesis is not rejected. Hence, there is no significant difference of opinion between Chartered Accountants and Academicians with regard to “public disclosure of company information that it could lead to a decrease in corrupt practices and may enhance transparency”. They both have agreed (Mean value apprx. 4) on this statement.

The following are the results which have been used for testing **Hypothesis 3 (HO3)**.

Table 3

Usefulness of financial reporting in digital form making use of eXtensible Business Reporting Language (XBRL)	
t-Test:	
	Academicians' view
Mean	3.853
Variance	0.5863
Observations	75
Pooled Variance	0.6732
Hypothesized Mean Difference	0
Df	120
t Stat	0.8511
P(T<=t) one-tail	0.1981
t Critical one-tail	1.6576
P(T<=t) two-tail	0.3963
t Critical two-tail	1.9799

As from the above result, it can be seen that P value is more than 0.05, so our null hypothesis is not rejected. Hence, there is no significant difference of opinion between Chartered

Accountants and Academicians with regard to “the usefulness of XBRL in financial reporting”. They both have agreed on the role of XBRL.

The following table 4 shows the mean, median, standard deviation of the responses.

Table 4

Statements of the Questionnaire	N Valid	Mean	Median	Std. Deviation
CAR is the primary communication channel	122	4.04	4	0.75
Sustainable Development – not relevant in India	122	2	2	0.98
Report on Carbon emission, energy use, etc. to be made mandatory	122	4.31	4	0.76
Meaning of Social Reporting	122	3.82	4	0.77
Sustainable Report Disclosure-Favorable & Unfavorable results	122	4.21	4	0.65
Ind-AS Rule based or principle based	122	3.09	3	0.87
Use of XBRL in financial reporting	122	3.80	4	0.81
Is meeting clause 49 requirements enough to show “All is Well”.	122	3.01	3	1.09
Quality of disclosure in CARs lowers risk premiums.	122	3.36	3	0.86
Additional disclosure requirements just wastage of time and human effort	122	2.26	2	0.95
Global competition has shaped CSD practice.	122	3.65	4	0.73
CARs mainly talk about: Human Resource Activity	122	3.06	3	0.92
CARs mainly talk about: Community Development Activity	122	3.10	3	1.018
CARs mainly talk about: Product and Service Activities	122	3.78	4	0.78
CARs mainly talk about: Environmental Activities of the Organization	122	3.11	3	1.053
More info on environmental activities could add value to the firm	122	4.10	4	0.85
Mandatory disclosure leads to an increase in ethical practices	122	4	4	0.77
Reputation building, the primary motivating factor for companies to go on CSD path	122	3.77	4	0.81
Most CAR’s give a window dressing of their image. Highlight positives and hide negatives	122	3.54	4	1.09

Table 5 depicts the frequency of the Likert scale parameters.

Interpretations

The above table shows that most (91%) of the respondents regard the Corporate Annual Reports (CARs) as the primary communication channel. 61% of the respondents have disagreed

to the statement that additional disclosure requirements is just wastage of time and human effort, while 23% have strongly disagreed to it. This indicates that disclosure in CARs is the need of the hour. 57% respondents have agreed and 31% have strongly agreed to the statement that more information on environmental activities in CARs could add value to the firm. 57% respondents have agreed and 32% have strongly agreed that **more information on environmental activities could add value to the firm**. Thus it can be concluded that disclosure in the Corporate Annual Reports **increase the credibility** of companies and is desirable from society’s viewpoint. 49% of the respondents have agreed and 24% have strongly agreed to the statement that “Most CAR’s give a window dressing of their image. Highlight positives and hide negatives”. So this can be concluded that there is requirement of a proper code on the disclosure of non-financial aspects, which the companies should adhere to.

Conclusions

Governance and transparency are more critical to foreign investors because they don’t have the wherewithal to check a company. One of the root causes of the global economic crisis was a lack of transparency, investor greed and poor corporate performance. How companies report, how they tell us about the risk in their company (both financial and non-financial) is the solution.

Professional bodies should encourage ethical reporting and prevent the causes of unethical reporting by various means. Regulatory authorities must put in place effective arrangements for efficient monitoring of regulatory compliance. If the law becomes more punitive for defaulters, it might act as a deterrent to unethical reporting practices. But unless we raise the consciousness level of people in general, we would continue to witness unethical practices. Hence each dimension needs to be tightened and above all moral conscience need to be evolved more amongst people. (Singh & Vasudeva, 2013)

The main challenges for non-financial reporting in India are the following:

- Lack of a specific sustainability/CSR reporting legislation or guidelines;
- Companies find it challenging to report how they conduct business in the absence of clear guidance based on local conditions.
- Following early experimentation, efforts need to be focused and reporting standardized. Typically, companies tend to report their community initiatives on a few pages in their Annual Reports rather than providing detailed information on internal practices and issues such as transparency, risk, and social or environmental impacts; and
- Synergizing social and business interests needs top priority. Corporate philanthropy needs to transform into the realm of core business and corporate social responsibility.

Table 5

Statements of the Questionnaire		D	SD	U	A	SA	Total
CAR is the primary communication channel	Frequency	1	8	2	85	26	122
	Percent	0.819	6.55	1.639	69.67	21.31	100
Sustainable Development- not relevant in India	Frequency	41	55	14	9	3	122
	Percent	33.60	45.08	11.47	7.37	2.459	100
Report on Carbon emission, energy use, etc. to be made mandatory	Frequency	0	3	13	48	58	122
	Percent	0	2.459	10.65	39.34	47.54	100
Meaning of Social Reporting	Frequency	2	5	22	76	17	122
	Percent	1.63	4.098	18.03	62.29	13.93	100
Sustainable Report Disclosure- Favorable & Unfavorable results	Frequency	2	0	4	80	36	122
	Percent	1.639	0	3.27	65.57	29.50	100
Ind-AS Rule based or principle based	Frequency	4	20	68	21	9	122
	Percent	3.278	16.39	55.73	17.21	7.37	100
Use of XBRL in financial reporting	Frequency	1	4	37	56	24	122
	Percent	0.819	3.27	30.32	45.90	19.67	100
Is meeting clause 49 requirements enough to show "All is Well".	Frequency	9	37	27	41	8	122
	Percent	7.37	30.32	22.13	33.60	6.55	100
Quality of disclosure in CARs lowers risk premiums.	Frequency	3	13	51	46	9	122
	Percent	2.459	10.65	41.80	37.70	7.37	100
Additional disclosure requirements just wastage of time and human effort	Frequency	23	61	24	11	3	122
	Percent	18.85	50	19.67	9.01	2.45	100
Global competition has shaped CSD practice.	Frequency	1	9	28	77	7	122
	Percent	0.81	7.37	22.95	63.11	5.73	100
CARs mainly talk about: Human Resource Activity	Frequency	3	34	42	38	5	122
	Percent	2.459	27.86	34.42	31.14	4.098	100
CARs mainly talk about: Community Development Activity	Frequency	5	33	37	38	9	122
	Percent	4.09	27.04	30.32	31.14	7.37	100
CARs mainly talk about: Product and Service Activities	Frequency		12	17	78	15	122
	Percent		9.83	13.93	63.93	12.29	100
CARs mainly talk about: Environmental Activities of the Organization	Frequency	4	39	28	41	10	122
	Percent	3.27	31.96	22.95	33.60	8.19	100
More info on environmental activities could add value to the firm	Frequency	2	7	5	70	38	122
	Percent	1.639	5.73	4.09	57.37	31.14	100
Mandatory disclosure leads to an increase in ethical practices	Frequency	1	3	21	67	30	122
	Percent	0.819	2.459	17.21	54.91	24.59	100
Reputation building, the primary motivating factor for companies to go on CSD path	Frequency	1	10	21	73	17	122
	Percent	0.819	8.196	17.21	59.83	13.93	100
Most CAR's give a window dressing of their image. Highlight positives and hide negatives	Frequency	4	22	23	49	24	122
	Percent	3.27	18.03	18.85	40.16	19.67	100

It is believed that corporation is responsible for the environmental crisis and so they should pay for this (cost-benefit trade off). However, reporting is mostly guided by standards, guidelines, etc., and, we do not have any standards designed for such disclosure. So, such reporting is still voluntary that has no specific format and style. Voluntary disclosure often leads to non-disclosure and mandatory disclosure leads to minimal disclosure. Thus, environmental disclosure should have both type of orientation, as it is a question of life and sustainability.

Recommendations

- The Corporate Annual Reports are still regarded as the primary communication channel between company and the various stakeholders despite the various other sources of information. It has been found that there is no significant difference of opinion between Chartered Accountants and Academicians with regard to "public disclosure of company information that it could lead to a decrease in corrupt practices and may enhance transparency". They

- both have agreed (Mean value appx. 4) on this statement. Hence public disclosure of company information both financial and non-financial must be enhanced.
- Academicians are more inclined with regard to making mandatory, “the public disclosure of environmental effects of processes within the organizations”. (Mean score 4.573). Hence as per Academicians environmental disclosure must be made mandatory.
 - It has been found that there is no significant difference of opinion between Chartered Accountants and Academicians with regard to “the usefulness of XBRL in financial reporting”. They both have agreed on the role of XBRL, hence XBRL should be used in financial reporting.
 - Reporting on ESG matters could increase value of firm and reduce the gap between the economic objectives and social objectives of the companies, as reporting on these matters tend to reduce the cost of capital.
 - More than 80% of the G250 Fortune Global companies now report on corporate responsibility. In India only 16 companies reported on sustainability in 2007 (KPMG Global Sustainability services, 2008). It is important that such initiatives are encouraged through stakeholder awareness and response.
 - It is through this learning and change process that the organizations start to measure, report, and improve on the way they make decisions and take actions. And by doing so, they create sustainable value for the organizations and its stakeholders. There appears to be global interest in the subject as reporting not only makes all stakeholders aware of the environmental performance of the company but gives a food for thought and plan for further action to the company itself.
 - Further, availability of sufficient data alone can establish relationship between economic and environmental performance. In developing country like India, such study is all the more essential as it will make the politicians, economists, technologists, sociologists, and the company managers aware about the limitations of growth as also the suitable course of growth without damaging the environment. ‘Green’ products, for example, not only reduce waste and cost to provide direct savings, but also provide reputational dividends from both investors and consumers. That said the ‘green’ label may soon wear itself out as environmentally friendly products become the norm rather than the exception. (KPMG, 2011)
 - Creating a databank and benchmarking of environmental performance will increase the competitiveness to the advantage of customers as well as society at large. **It should also pave the way for amendment of the Company and Environmental laws and regulations** and enable national stock exchanges to create new indexes in line with Dow Jones Sustainability index to the advantage of the investors and shareholders.
 - To motivate the companies for meaningful environmental reporting, **rewards for good quality of environmental reporting** should be instituted similar to the rewards for good environmental performance. Environmental legislation, perhaps, is adequate. What is needed is its enforcement.
 - Integrated reporting could pave the way for synthesizing financial and non-financial reporting into one form and give a holistic view of companies’ strategies to its stakeholders incorporating new dimensions of IFRS.

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