

Environmental Disclosure Practices: A study on BSE-Sensex companies in India

Introduction and Context of the study

In the last few years, there has been a growing awareness of the need to discover the art of living in harmony with nature. It is also realized that the environment is not a permanent asset. Rapid industrialization, in spite of its positive effect on economic development has very seriously threatened the world's natural environmental balance. There is a growing pressure from environmentalists, government, society, customers, employees, and competitors on business firms to be environmentally accountable.

Proper balancing of economic development and environment protection is gradually being recognized by all concerned. Activities of business organizations such as environmental pollution and unsustainable use of natural resources cause increase in the emission of greenhouse gases. This consequently results in depletion of the ozone layer and global warming. As a result, the role of companies in addressing environmental and sustainability issues is deemed very vital. In the past, companies paid very little attention to the environmental degradation

caused by their activities. However, we are in a new era of sustainability where most people now recognize the importance of preserving clean air and clean water; customers are willing to pay more for products whose processes are environmental friendly and investors place very high values on environmental responsibility. Environmental reporting and disclosure practices are a means of communicating to the stakeholders about the impact of the organization's actions on the environment.

Literature review

Corporate disclosure is a very broad term which goes beyond reporting only financial information (Abdul Rahman, 1998). Corporate social and environmental disclosure emerges from a variety of sources (Setyorini & Ishak, 2012) and environmental information have appeared to be part of annual corporate reports since the 1980s (Xi Zhao & Lions, 2011). Corporate environmental reporting is the process of communicating the environmental effects of organizations operational and economic functions to particular interest groups within the society and to the society at large (Gray, Khouy & Lavers, 1995) Dye (2001) argued that the theory of voluntary disclosure in the

annual reports is a special case of game theory with the following central premise: any entity contemplating making a disclosure will disclose information related to the environment that is favorable to the entity, and will not disclose information related to the environment unfavorable to the entity. Environmental information (EI) must help the society and firms to recognize the impact on the environment of business decisions (Milne and Patten, 2001; Kuk et al., 2005). It has been best described as a tool to spur corporate policies, strategies and management systems geared towards minimizing adverse environmental impact (Sustainability/ United Nations Environmental

Program (UNEP), 1998). environmental reporting practices. tandem with their financial-market agenda. In line with that, environmental accounting and reporting have grown from being a subset of traditional financial accounting to become an integral part of public communications i.e. towards greater "organizational transparency, stakeholder accountability and participative democracy" (Owen, Gray and Bebbington, 1997, p. 195). environmental reporting is a form of corporate response mechanism predicated on their business commitment to socioenvironmental accountability, in India corporate bodies are increasingly and progressively engaging in environmental reporting in their annual report

or by way of a separate sustainability report. In a study Paul and Pal (2001), on the basis of examination of environmental reporting practices, concludes that it has gained momentum with the passage of time even in the absence of any compulsion and standard guidelines. Chatterjee and Mir (2008) examined the status of environmental disclosure made by top 45 Indian companies in terms of market capitalization and concluded that most of the information disclosed by the sampled firms was narrative. Similarly, Sen (2011) examined the nature and extent of the environmental disclosure practices of Indian core sector companies and found that information disclosed

was more qualitative than quantitative and varied across industries as well as companies. On the basis of study on environmental accounting and reporting policy of ONGC and BPCL Shukla & Vyas (2013) concluded that commitment that companies show in the narrative disclosures for environment protection through environmental reporting were not transformed in accounting practices. In last two decades, the accounting literature has witnessed a growth in the number of studies regarding corporate environmental disclosure. The ED is a topic that has gained interest of many researchers from the accounting to the report perspective. The existing

literature provides enough evidence that though environmental reporting is gaining momentum but it is yet not developed as per expectation of the stakeholders. Therefore, it is important to identify the challenges faced in sound development of environment reporting practices.

Objectives of the study

The objectives of the study are:

- (1) To identify the existing status of environmental disclosure practices followed by BSE-Sensex companies in India
- (2) Identify the challenges in development of sound structure of environmental disclosure practices

Data and Methodology

For the purpose of this study the information relating to environmental reporting practices of the BSE-Sensex companies as on 31st July, 2017 was accessed from the website of the

of the companies. The sections of the annual report such as Director's Report, Business Responsibility Report, Management Discussions and Analysis were searched and sifted for sourcing the

sourcing the information relevant for the study. Content analysis which has been widely used in literature on environmental disclosures has been used in this study.

Environmental Disclosure – Legal framework in India

SEBI vide a circular incorporated Clause 55 in the listing agreement with stock exchanges in India applicable with effect from financial year ending on or after December 31, 2012 which requires that "Listed entities shall submit, as part of their Annual Reports, Business Responsibility Reports, describing the initiatives taken by them from an environmental, social and governance perspective. The format suggested for reporting environmental initiatives under Principle 6 is as under:

Business should respect, protect, and make efforts to restore the environment :

1. 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.

2. 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.

3. Businesses should ensure that benefits arising out of access and commercialization of biological and other natural resources and associated traditional knowledge are shared equitably.

4. 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.
5. 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.
6. 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.

Environmental Disclosure practices in India

From the study of annual reports of the sample companies it is evident that all the BSE-Sensex companies are sensitive to the environmental issues and concerns and have duly complied with the requirements of the listing agreement regarding environmental disclosures in the Business Responsibility report as part of Director's Report. However, important fact is that the place of environmental disclosures is not uniform. Companies have reported such information either / and in sustainability report, in management discussion analysis report. Table I reflects the distribution of environmental disclosures of the sample companies. From the study, it reveals that 100% of sample companies reported such information only in the directors' report. Contrary to that 40% of the sample companies reported such information in directors' report and management discussion & analysis report and 10% of sample companies reported environmental information in directors' report as well as separate sustainability report. Study reveals that 10% of the sample companies reported such information in directors' report , management discussion & analysis and separate sustainability report. Such variation in the format of environmental disclosures distorts the utility of the information for the stakeholders as it leads to spreading of information and in many cases there is repetition of information. Table 1 depicts a summary of the place for environmental disclosures chosen by the sample companies .

Table 1 Place of environmental disclosures

In Directors report	30 (100%)
In separate Sustainability report only	nil
In Management discussions and analysis only	nil
In directors report and Management discussion & analysis	12(40%)
In separate sustainability report and directors report	3(10%)
In directors report, management discussion analysis and sustainability report	3(10%)

Themes of information reported

The growing awareness among the stakeholder about environment and global development of environment disclosures leads the company to disclosure of environmental initiative in addition to the compliance of mandatory requirement.

In such disclosures it has been noticed that conservation and management of water is considered as one of the important issue. Study reveals that 60% of the sample companies disclosed their efforts for conservation of water. Under this area they reported their efforts about recycling and reuse of water, recharge of ground water by rain water harvesting and efforts made for reduction of water consumption. Energy consumption is another important issue for business. Due to progressively increasing consumption of energy, not only the energy reserve of the earth is sinking but it is also leading to environmental degradation. The solution to that lies in the reduction of energy consumption and use of renewable source of energy. 40% of the sample companies reported about their efforts to generate and use renewable source of energy like wind energy, bio-diesel etc.

Only few sample companies have shared information about amount of such power generated by the company. Another important issue in the environmental degradation is the management of waste generated by the Business units. Proper waste management is necessary to



protect the environment. 50% of the sample unit have reported about their efforts regarding management of waste by reduction, recycling and reuse of waste. Deforestation is one of the important issues for environmental imbalance. Due to establishment of industrial units, green coverage has been sinking which may be one of the causes of ecological imbalances.

. It is the duty of business to spend some amount of revenue to create and conserve the green belt. It is noticed that 66.67% of sample unit have reported that they made efforts to increase the green belt and conservation of bio-diversity. However, such information is not supported or corroborated by the amount of money spent for such initiatives. Another important issue of environmental degradation is global warming.

The global warming has been increasing due to emission of greenhouse gas. The study reveals that 26.67% of the sample companies have reported about their efforts to reduce emission levels as their environmental initiatives. The study reveals that 26.67% of the sample companies have reported about their efforts to reduce emission levels as their environmental initiatives.



Most of the companies reported that they made efforts to reduce emission level with improvements in production process and use of improved technology. 9% of the sample companies have disclosed their efforts in choosing energy efficient

technologies. It is noted that such disclosures grossly neglect to report the current level and previous level of emission data. Companies are also looking at Green marketing and green themed events as a reflection of their commitment to protect the

environment. 20% of the sample companies promoted green themed events and 10% of the sample companies engaged in green marketing activities. Table 2 depicts a summary of the environmental disclosure themes used by the sample companies.

Nature of information	Nature of companies
Water preservation / re - cycling	18 [60%]
Use of renewable sources of energy	12 [40%]
Waste management and re - cycling	15 [50%]
Bio - diversity conservation and generation of green belt	20 [66.67%]
Effort to reduce green gas	8 [26.67%]
Choosing energy efficient technologies	9 [30%]
Green themed events	6 [20%]
Green marketing	3 [10%]

Source: Annual reports of sample companies

From the analysis of the environmental disclosure practices of BSE-Sensex companies in India it is clear that the companies are widely disclosing environmental protection efforts in their annual report, however, there is a wide variation in respect of the place of environmental disclosures and also the theme selected for disclosure.

Another important fact is that most of the environmental disclosure information is non-quantitative in nature. Only few sample companies (4) have provided quantitative environmental disclosures i.e. percentage of reduction of carbon footprint and emission of greenhouse gas in comparison to previous year. It is also pertinent to that no information has been

found in the annual reports of the sample financial information of the business. Moreover, environment protection initiatives may have financial implications which may be positive or negative, which need to be properly recognized in the financial information to provide a true and fair view of the financial results and state of affairs of the business.

Challenges for Environmental Disclosure

Study of corporate reporting practices of BSE-Sensex companies reflects that there is an increasing tendency among the corporate managers to disclose some information in the domain of environment in their annual report to inform about their efforts to shareholders and public in general. It is also clear that most of such environmental information reported by the companies is found to be non-financial. Such information is mere description of the efforts made for protection of environment by the company. The information on amount of money spent for such initiatives and its material effect on financial results is grossly missing. Again there is wide variation noticed in the style, structure and place of reporting and environment theme the companies selected to report. This adds another dimension to the problem viz. lack of comparability and verifiability.

It is imperative that such information should be integrated with financial accounting information to have reliability. For integration monetary measurement of environmental cost and benefits is necessary. But all costs and benefits related to the environment cannot be suitably measured in monetary unit. Internal cost, like investment made by the corporate sector for minimization of losses to Environment by product development, process development are amenable to monetary measurement but cost of externalities like degradation and destruction like soil erosion, loss of bio diversity, air pollution, water pollution, noise pollution, problem of solid waste, depletion of nonrenewable natural resources i.e. loss emerged due to over exploitation of non-renewable natural resources like minerals, water, gas, deforestation etc. and the environmental assets created by business like a forestation, bio-diversity conservation, water preservation etc cannot be suitably measured in monetary terms. Thus total integration of environmental reporting within the framework of existing financial reporting structure and system a challenge.

Conclusion

Annual Report is one of important vehicle for the corporate bodies to communicate with external world. With increase in the complexities of the business world and the growing stake holder's awareness the role of environment related information has been gradually increasing for making economic decisions. It is also a recognized fact that due to increase in level of environmental awareness of stakeholders environmental disclosures now are considered an integral part of financial reporting. But after the study of environmental disclosure practices of BSE-SENSEX companies, it can be concluded that, though environmental disclosures have progressively and markedly improved in corporate reporting in India, it still lacks in terms of comparability and verifiability and accordingly the information is yet to gain centrality in corporate decision making process. There are, however, limitations in this study that should be taken into account when interpreting the results. The limitation of this research is that it only looked at 30 listed companies of India forming part of the BSE-Sensex; in order to have a detailed understanding of the nature of variation of overall level of disclosure, it is necessary to undertake a study taking more listed companies and more industries into consideration. The communication of this information is done in a variety of different forms and mediums such as the annual reports, stand-alone environmental reports, pamphlets, documentaries, brochures etc. (Gray and Bebbington, 2001). Information from communication channels other than the corporate website and the annual report has not been addressed. Furthermore, this study could be improved or extended by using a survey or conducting interviews as a research method in order to deepen the understanding of the variables that influence the environmental disclosure practices among the listed companies in India.



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