Sustainability Reporting of Indian Companies and the Adherence to GRI Disclosure Framework

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Abstract

Given that all significant stakeholders expect companies to be transparent with financial and nonfinancial disclosures, companies are under increasing pressure and are also morally obliged to adhere to voluntary disclosure frameworks. In this regard, the GRI disclosure framework (non-financials) has recently attracted a lot of attention, and listed Indian companies are about to comply with this disclosure framework. Accordingly, this study attempted to gain insights into the extent to which recorded Indian companies adhere to the GRI disclosure framework. For this purpose, we captured the sustainability reports of Indian listed companies from the GRI Sustainability Disclosure Database (SDD) for a span ranging from 20 years from 2000 onwards. The results from this study indicated that of the million listed companies in India, only a few (425 companies) submitted their sustainability reports with GRI in compliance with the guidelines. However, another interesting finding is that majority of these compliant companies are long-listed and from the ESSI industry classification. As GRI disclosure compliance gives away companies' ethical solid governance practices, it is pretty surprising that exceptionally few Indian companies choose to do so consistently. In line with the findings of this study, we discussed practical and research implications.

Keywords : Global Reporting Initiative (GRI), social disclosure, sustainability reporting, GRI disclosure framework, compliance

JEL Classifications Codes : M14, M16, M41

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With the structural changes brought in by globalization and privatization, the private sector comprising businesses plays a significant role by sharing the responsibility of community welfare and sustainable development. The task of social development requires a multi-pronged approach in which the corporate sector has a vital role in ensuring the community's interest. Today, we can find the social intervention of the corporate sector in various areas ranging from poverty alleviation, rural development, and environmental protection (Behal & Gupta, 2022). At the same time, growing awareness of the stakeholders and public pressure have necessitated the corporate sector to be more sensitive to society's requirements. With the increased social activism, the stakeholders are not only demanding greater responsibility-sharing by the companies but are also urging accountability (Paine et al., 2019). Companies can be regarded as socially responsible only if they provide greater participation for stakeholders and take measures for the welfare of their employees and the larger society (Mohtsham Saeed & Arshad, 2012). To comply with the growing expectations of society, it has become necessary

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for corporations to integrate their community and social welfare programs with their main line of business and communicate the same. In this context, Elkington's concept of the triple bottom line framework for accounting (1997) gained prominence.

Recently, there has been a dramatic change in how companies and their performance are assessed. In the past, an organization's performance was evaluated based on profits, financial ratios, market capitalizations, and various other financial parameters. But today, in addition to the economic indicators, an organization is being judged based on the value it creates for society and whether such a value creation process is enduring. As a result, a company needs to resort to nonfinancial reporting, which could prove its contribution to society (Bedenik & Barišić, 2019). While we have standard, country-specific guidelines for financial reporting, nonfinancial reporting doesn't have such accepted standards.

In this context, the global reporting initiative (GRI) has emerged as a globally accepted framework and standard for companies for CSR contribution and disclosure practices (Wilburn & Wilburn, 2013). The global reporting initiative has been hailed as the de facto standard in transparency and sustainability reporting systems worldwide. Compliance with GRI has become imperative and has a far-reaching influence in doing business accepted globally. GRI seeks to make sustainability reporting by all organizations routine compared to financial reporting. It is a generally accepted reporting framework for organizations across various industries, sectors, and locations. To be globally competitive, Indian companies serving their customers abroad must adhere to specific essential behavioral attributes, such as punctuality, honesty, quality and accuracy, and transparency. Compliance with the global reporting standards was one of the ways of ensuring local acceptance in the international markets (Passah et al., 2020). Compliance with GRI and other guidelines has a far-reaching influence on doing a business accepted globally. Companies have also realized that sound governance practices and socially accepted behavior can improve their reputation among their stakeholders, business partners, and regulatory authorities. Due to the influence of civil society organizations, regulatory authorities, and trade associations, companies today comply with sustainability reporting, triple bottom line accounting, GRI compliance, etc. The sustainability report also enhances organizational transparency through several nonfinancial disclosures. The increased transparency is also an indication of better corporate governance practices followed by a company.

Against the backdrop of the points mentioned above, this study attempts to understand the evolution of a voluntary framework for nonfinancial disclosures by companies. Further, this study focuses on gauging the extent of sustainability reporting by large listed companies, SMEs, and MNEs in India, thereby providing insights on - GRI compliance amongst the Indian companies and emergent trends in sustainability reporting by Indian firms.

Review of Literature

The heightened consciousness about CSR activities and subsequent disclosures are also triggered by the growing expectations of the stakeholders both in the domestic and overseas markets. As a result, we observe a shift in corporate reporting from traditional financial reporting to corporate social reporting (social, environmental, and economic metrics). Past research in the area of CSR reporting not only highlights the nature of such reporting, but also throws light on various factors influencing the quality of CSR reporting.

While explaining stakeholder theory, Freeman and McVea (2001) opined that one of the firm's primary objectives is to balance the different demands of its various stakeholders. Sustainability reporting could be viewed as the company's strategic move to meet the demands of multiple stakeholders who would play a crucial role in its functioning and existence. Emphasizing the need for sustainability, Jose et al. (2022) proposed a heightened focus on corporate governance practices to enhance business sustainability. Transparency, along with pro-investor governance, has taken the driver's seat (Ahamed, 2014).

Several studies have also considered legitimacy theory as a conceptual framework for social disclosures (Cormier & Gordon 2001; Deegan 2002). The underlying assumption of this theory indicates that any organization's existence and right to use society's resources depend on the legitimacy of its business (Holder-Webb et al., 2009). Corporations continuously strive hard to demonstrate the legitimacy of their operations and be known for being good corporate citizens. A proper CSR disclosure of a company's sustainability programs could enhance the image of a company as a good corporate citizen. Hence, these two theories provide a suitable conceptual framework to study the firm's characteristics and sustainable reporting.

Many cross-country studies have revealed the nature and extent of sustainability reporting worldwide. One such study on Fortune Global 213 companies indicated that the number of firms adopting sustainability reporting increased during the period between 1999–2005 (Kolk, 2010). Roberts and Koeplin (2007) found that in Portugal, corporations emphasized more on social disclosure and then on reporting of economic aspects. Environmental reporting was of less prominence in Portugal. In the context of Germany, Quick (2008) found moderate compliance with the GRI guidelines. A study of GRI compliance among Australian companies revealed that the labour practices category of GRI guidelines showed the highest disclosure (Guthrie & Farneti 2008). The survey of sustainability reporting in Brazil, India, China, Russia, and South Africa found that South Africa was leading in the reporting, followed by India in the second place, and China and Russia were lagging with the low score (Baskin, 2006). A cross-country study of 310 GRI member firms revealed that Indian companies had the highest coverage, with 75.2%, followed by South Korea, the USA, the UK, and Russia (Preuss & Barkemeyer 2011). The results of a comparative study of sustainability reporting by Indian and Chinese companies by Bhatia and Tuli (2014) showed that the sustainability disclosure score of Indian companies was better than that of Chinese companies. At the same time, a similar comparative study on Indian and U.S. corporations by Tuli (2013) found that compared to India, a more significant percentage of U.S. companies disclosed sustainability information. The nature of sustainability reporting and the extent of compliance with GRI guidelines varied across different countries of the world.

Most of the literature concentrates on the number of GRI factors covered by the reports; there is little examination of the reasons for the variations in the information. An initial review of the literature suggests specific exciting observations. For instance, in the case of companies such as ITC that are considered “sensitive,” there is greater comprehensiveness in adhering to GRI guidelines. There are other factors also, such as size, that may have an impact on the extent of reporting. We surmise that there is a high level of disclosure because of their over-dependence on tobacco for their top and bottom lines. Similarly, other factors, too, such as firm size, shareholding pattern, the legacy of the firm, economic performance, etc., could significantly influence the nature of sustainability disclosure and compliance with GRI guidelines. But the extent of influence of these factors on disclosure practices is yet to be probed.

From the detailed literature review, it is evident that the firm size, industry profile, economic performance, legacy, and shareholder dispersion played a significant role in the extent of the companies' nonfinancial disclosures. Sustainability reporting practices differ by dimension/category, industry type, and firm size, but are not influenced by ownership structure. However, the study fails to establish any conclusive relationship between sustainability reporting and profitability.

The previous studies noted that larger companies are likely to catch the public attention more than smaller companies. Hence, they would be pressured to disclose nonfinancial information (Chan et al. 2014). Similarly, larger companies, on average, are more diversified across geographical and product markets, and because of their greater visibility, they consider social responsibility activities and disclosure as a way of enhancing corporate reputation (Branco & Rodrigues, 2008). CSR practices of larger companies are more prone to scrutinization than smaller ones. Companies are more likely to use formal communication channels, such as annual reports, to disclose their social and community welfare activities to interested parties (Cowen et al., 1987). In addition, to avoid regulation and to decrease political costs, larger companies are more likely to adopt voluntary social disclosures in their annual reports (Adams et al., 1998).

There would be a more excellent motive for the firms in sensitive industries such as chemical, mining, tobacco, etc., to project a perfect image to the public through nonfinancial disclosures (Chan et al., 2014; Kansal et al., 2014; Michelon et al., 2015).

According to stakeholder theory, profitability positively affects a company's decision to disclose information on social responsibility. A study found that the level of social and environmental disclosures has significantly influenced market valuation (Charumathi & Ramesh, 2017). Thus, stakeholder theory indicates an association between economic performance and disclosure of social responsibility activities. Past literature has categorized financial performance as accounting-based performance measures such as return on equity, return on capital employed, net profit margin, etc., and stock performance measures.

Past studies established that the age of a firm influences the involvement of the firm in social and community welfare activities. Long-established firms are likely to make more significant voluntary social disclosures. Cormier et al. (2005) reported a positive relationship, while Abd Rahman et al. (2011) denied any connection between the firm's age and social disclosures. For instance, socially reputed firms tend to make more CSRDs to maintain their CSR image. Kansal et al. (2014) observed that firms such as the Tata Group, the Birla Group, Infosys, and Wipro need to make disclosures to assure the public of their continuous provision of socially desirable ends and that they are not deviating from the high standards established in the past.

Due to ownership dispersion, there will be information asymmetry between the company's management and shareholders. Information asymmetry is likely to increase conflicts of interest. Voluntary reporting and disclosure could reduce the information asymmetry that exists and, therefore, assist in reducing agency conflicts (Jensen & Meckling, 1976). With both stockholder's theory and legitimacy theory framework, we could expect that the disclosures will likely increase with more shareholding dispersion.

Methodology

Since the study aims to gain insights into the extent to which listed Indian companies adhere to the GRI disclosure framework, we captured the sustainability reports of Indian listed companies from the GRI Sustainability Disclosure Database (SDD) for 20 years from the year 2000 onwards. The sustainability reporting by the global companies has been compiled following April 17, 2021. GRI database has 15,109 organizations and 63,789 reports and 38,481 GRI-compliant reports across the globe. From India, there are 424 companies and 1,110 reports, wherein 238 sustainability reports adhere to G4 guidelines from 120 organizations. Companies are classified under three heads (large, MNE, and SME). The database includes 37 sectors (industry classification) across six regions and 242 countries. Reports are classified under eight categories. The sustainability reports from 2000 – 2021 have been analyzed to understand the level of GRI compliance by Indian listed companies. Sustainability reporting practices of six geographical regions across the globe have been studied in detail to know the pattern and trend in sustainability reporting across areas.

Analysis and Results

GRI's Sustainability Disclosure Database (SDD) is a free-access database wherein the search area provides access to all sustainability reports related to the reporting organization. Twenty years ago, sustainability was considered business nonessential; decades ago, it was counted as a passive investment; and today, it is a responsible business practice. Business houses realized the importance of social accounting or nonfinancial disclosures. The number of corporates reporting their sustainability has increased with the heightened pressure from varied stakeholders.

Table 1. ***Global Trend in Sustainability Reporting and Compliance to GRI Framework***

Region	Number of Countries Reporting	Total Reporting Organizations	Total GRI Reports	Percentage of Reporting Organizations	Percentage of GRI Reports
Africa	58	779	3730	5.16	5.85
Asia	52	5199	20338	34.41	31.88
Europe	53	4713	22012	31.19	34.51
Latin America & the Caribbean	50	2402	8419	15.90	13.20
North America	5	1563	7116	10.34	11.16
Oceania	24	453	2174	3.00	3.41
Total	242	15109	63789	100.00	100.00

Source : http://database.globalreporting.org/

Figure 1. ***Global Trend in Sustainability Reporting Region-Wise (Number of Organizations Reporting Across Regions)***

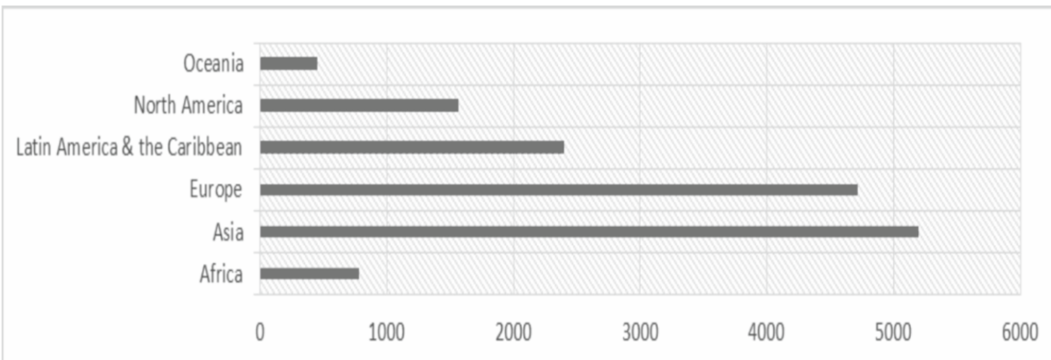


Table 2. ***Trend in Sustainability Reporting and Compliance to GRI Framework by Indian Companies***

Country	Total Reporting Organizations	Total GRI Reports	Percentage of Reporting Organizations	Percentage of GRI Reports
India	424	1110	2.80	1.74

Table 1 and Figure 1 show that 15,109 organizations reported sustainability by adhering to the GRI framework. The European countries are leading in sustainability reporting with 34.51% of total reports submitted, followed by Asia with the second rank. Sustainability reporting practices of Africa and countries from Oceania are below 10% of the reports submitted to GRI. Nonfinancial reporting is widely followed in two significant regions of the globe, that is, Europe and Asia, with a total share of more than 65% of the sustainability reports to GRI.

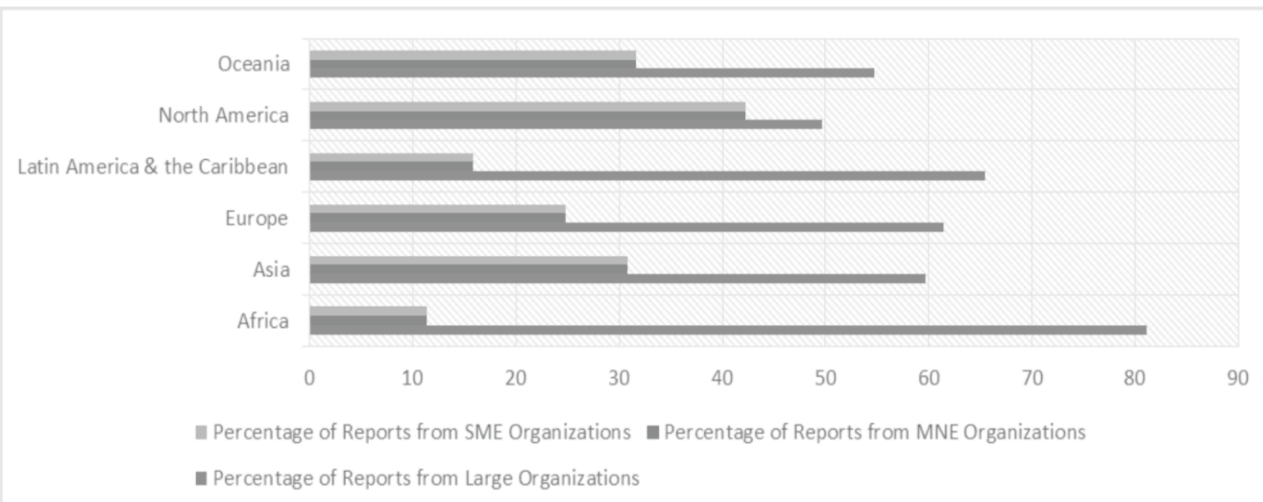
It is evident from Table 2 that India is new to sustainability reporting. Only 428 organizations with 1,112 reports from India adhere to the GRI sustainability disclosure framework. Currently, Indian companies account for 2.80% of the total reporting organizations at GRI, with a share of just 1.74 % of the GRI reports across the globe.

Table 3. ***Global Sustainability Reporting Trend in Compliance with GRI Framework as per the Size of the Companies***

Region	Number of Countries Reporting	Total Reporting Organizations	Total GRI Reports	Percentage of Reports from Large Organizations	Percentage of Reports from MNE Organizations	Percentage of Reports from SME Organizations
Africa	58	779	3730	81.12	11.31	11.31
Asia	52	5199	20338	59.65	30.76	30.76
Europe	53	4713	22012	61.48	24.78	24.78
Latin America & the Caribbean	50	2402	8419	65.47	15.9	15.9
North America	5	1563	7116	49.69	42.27	42.27
Oceania	24	453	2174	54.69	31.69	31.69
Total	242	15109	63789	–	–	–

Source : http://database.globalreporting.org/

Figure 2. ***Global Sustainability Reporting Trend in Compliance with the GRI Framework***



As discussed in the literature review segment, it is evident from Table 3 and Figure 2 that the larger firms tend to capture public attention more than the smaller firms. Large firms are leading in all six regions concerning reporting their sustainability. Due to the increased stakeholder pressure, the large firms are expected to disclose more on their nonfinancials than the smaller firms in the segment. Table 1 reveals that there are 63,789 reports submitted to the GRI and the leading submission is by the large organizations amounting to 38,929, which accounts for more than 60% of the GRI reports across the globe.

Representation from Indian companies at GRI has been listed in Table 4. Large companies account for 72.5% of the total reports, followed by multi-national organizations in second place (21.17%), and small and medium enterprises having a minor share of 6%.

Observing the decadal growth in sustainability reporting by Indian companies is noteworthy. From 2000 to 2010, only 46 organizations reported their sustainability leading to a total headcount of 110 GRI reports from

Table 4. ***Sustainability Reporting Trend in Compliance to GRI Framework by Indian Companies as per the Size of the Companies***

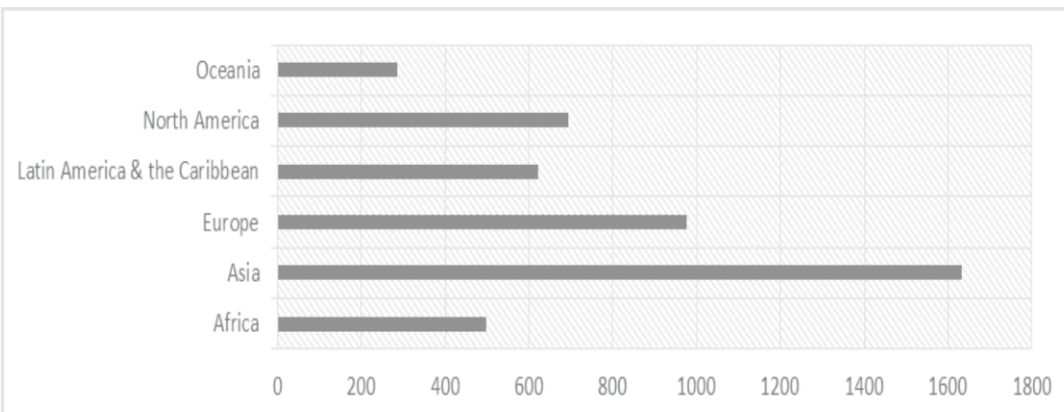
Country	Total Reporting Organizations	Total GRI Reports	Percentage of Reports from Large Organizations	Percentage of Reports from MNE Organizations	Percentage of Reports from SME Organizations
India	424	1110	805	235	70

Table 5. ***Global Trend in Reporting by the Firms in Environmental and Social Sensitive Industries (ESSI)***

Region	Number of Countries Reporting	Total ESSI Reporting	Total GRI Reports from ESSI
Africa	58	85	497
Asia	52	355	1632
Europe	53	191	976
Latin America & the Caribbean	50	138	623
North America	5	130	694
Oceania	24	50	285

Source : http://database.globalreporting.org/

Figure 3. ***Global Trend in Reporting by the Firms in Environmental and Social Sensitive Industries (ESSI)***



India. But during the last eight years, that is, from 2011–2017, the number of firms reporting from India grew to 387 organizations with a total of 857 reports. The pattern in writing over the years remained unchanged, with leading contributions from large organizations. During the last 5 years (2013–2017), 748 reports have been submitted to GRI by Indian firms. The submission history reveals 510 reports from large organizations accounting for more than 68% of the total reporting. So, we can draw a clear inference that large firms tend to disclose more of their nonfinancials compared to SMEs and MNEs.

The companies in the ESSI category (Table 5 and Figure 3) tend to disclose more than the non-ESSI firms since the adverse impact caused by these companies on the environment and society is relatively high. Nine hundred

Table 6. ***Trend in Reporting by the Indian Firms in Environmental and Social Sensitive Industries (ESSI)***

Country	Total ESSI Organisations Reporting	Total GRI Reports from ESSI Organizations
India	38	113

forty-nine companies under the ESSI category reported 4,707 reports to GRI. Asian companies in this segment submitted 1,632 reports, accounting for 35% of the total reporting, followed by European companies contributing 20% of the reporting in the ESSI category.

Past studies reveal that the companies in the ESSI category tend to make higher disclosures as they cause a lot of damage to society in the form of climate change and other kinds of pollution. From India, 38 companies (Table 6) from the ESSI category reported 113 reports adhering to the GRI sustainability disclosure framework.

Theoretical Implications

Sustainability reporting makes the companies understand their impact on society and ensures they are more transparent towards the risks and opportunities they may encounter on account of sustainability issues. A simple claim about the extent of sustainability is not enough to cater to the varied expectations of the stakeholders. Companies are expected to follow a high level of sustainability through credible demonstrations of sustainability by adhering to the social disclosure frameworks. Voluntary disclosures will enhance trust amongst the stakeholders and will impact economic performance. As per the business hypothesis, you can't manage what you can't measure; transparency is a currency that builds trust and businesses.

Sustainability reporting can be considered a means for better risk management as sustainability is about understanding business resilience and identifying an opportunity to promote transparency and collaboration. Along with the traditional risks, modern firms face increasingly higher levels of social and environmental risks which are external and beyond the firm's control. In this regard, a company has to consider long-term capacity building and follow adaptive strategies to manage the risk; a good disclosure in the form of a sustainability report will help here. Sustainability reporting also helps firms to improvise their operating efficiency.

For example, a survey by A.T. Kearney revealed that during the 2008 recession, companies committed to sustainability practices achieved “above average” performance in the financial markets, translating into an average of $650 million in total market capitalization per company. The survey called them “Green Winners.” Companies are trying to create value through sustainability by enhancing return on capital through reduced operating costs by effective resource management like energy use and waste management practices. Value chain management driven by more transparent and ethical business practices helps companies to avoid onerous regulations and political costs. All these promote operating efficiency.

Managerial Implications

As a result of stakeholder activism, there is a greater demand to report a higher level of transparency regarding nonfinancial reporting by companies. As far as the business world is concerned, there is an urgent need to respond to the stakeholder pressure concerning the disclosure of information relating to good governance to avoid negative impacts of business on the society in which it operates. Therefore, it is high time to delve into nonfinancial reporting to keep up with the growing preferences of a varied set of stakeholders and wish to comply with the country's regulations. It helps the company to formulate strategies for making the business more sustainable and manage the change effectively and efficiently. When stakeholders are directly involved in the sustainability reporting process, the industry becomes more responsible with higher accountability, a more excellent reputation, and fetches the trust of all stakeholders.

GRI connects the government and business and provides a platform that contributes positively to sustainable development goals. GRI compliance will help the companies identify potential risks and convert them into opportunities. The process of GRI compliance makes the company understand the effect of their nonfinancial performance on financial performance. By adhering to the GRI framework, companies can comply with quality and performance standards, laws, codes, and business norms. There will be a clear understanding of possible environmental, social, and governance failures through the GRI Compliance. It also facilitates intra and inter-sector comparison of business performance. Apart from the above-listed internal benefits, there are also external benefits to the reporting firm. GRI reports ensure environmental safety and adherence to social and governmental laws.

Conclusion

India is new to sustainability reporting. There are so many ways of improving how nonfinancial reporting takes place. Currently, disclosures of sustainability activities may be reported in various ways. For instance, some companies say CSR activities are under management discussions and analysis. Some others show it under Chairman's report. The extent of money spent may not find a definite place under the profit and loss account or notes to the profit and loss account. Some companies report CSR spent before taxes and some post-tax; as a result, there is a need for better and uniform reporting standards to correct the anomalies. Besides uniformity, there are also issues of transparency in reporting. For instance, the current regulation requiring companies to set aside 2% of their profit after tax should be an item after PAT. But the examination of several recent reports does not subscribe to this requirement. There are also implications for reporting formats.

This GRI disclosure framework will have significant implications on how reporting of nonfinancial data of publicly traded companies should be made. This process will span reporting format, uniformity of reporting by various companies, and proposals for standardization of such reports. The uniformity in sustainability reporting can help agencies like the Ministry of Corporate Affairs, SEBI, CII, other industry associations, and other researchers in the field.

Limitations of the Study and Scope for Future Research

This study focuses on gauging the extent of sustainability reporting by large listed companies, SMEs, and MNEs in India, thereby giving insights on GRI compliance amongst Indian companies and emergent trends in sustainability reporting by Indian firms. The study concentrates on identifying the pattern in disclosures amongst the companies. Future studies may focus on establishing the relationship between variables like the legacy of the firm, ownership pattern, financial performance, and shareholder dispersion with the extent of disclosure. The magnitude of the disclosure can be measured by constructing the GRI compliance index by a detailed understanding of disclosures made in the annual reports through content analysis software.

Authors' Contribution

Prof. Rakhesh Shetty developed the research idea and the study design. Dr. Ashalatha K. retrieved all relevant research papers from reputed journals, and these papers were segregated based on the keywords and used for writing the conceptual note for the study. Prof. Rakhesh Shetty compiled the reporting statistics and wrote the manuscript in consultation with Dr. Ashalatha K.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial or nonfinancial interest in the subject matter or materials discussed in this manuscript.

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