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Corporate Responsibility Survey 2011

Marching towards embracing sustainable development

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Contents

Foreword

The changing global environment is challenging companies to look beyond financial performance to drive business. Business leaders are increasingly realizing the need to integrate environmental and social issues within the business strategy. An emerging trend is the inclusion of Corporate Responsibility elements, especially climate change, into the CEO agenda. Most of the companies are now taking measures to combat climate change and leverage the Kyoto mechanism to adopt cleaner technology and also generate additional revenues. With a view to gaining insight into Corporate Responsibility (CR) Reporting trends in India, we are carrying out this survey, the first of its kind in India as an extension to the KPMG International Survey, launched a few years ago. We surveyed the public disclosures on CR performance made by the top 100 listed companies by revenue. The survey brought out some interesting findings:

- Only 31 out of the N100 companies considered for the survey are publicly reporting on their CR performance of which only 25 percent have systems to measure, monitor and report on such issues.
- Fifty two percent of the reports are externally assured, out of which 62 percent prefer accountancy firms for assurance.
- Enhancing brand image and reputation and ethical considerations emerge as top drivers for companies to report on corporate responsibility and cost saving appears last on the agenda of reporters.
- The reports are encyclopedic in nature and do not touch upon the business case for sustainability.
- Across the reports, the linkage between stakeholder engagement, materiality and business strategy has not been clearly established.

Today we are in the recovery phase after the global meltdown, and it is having mixed effects on CR efforts within companies. It is interesting to note that despite this meltdown companies are focusing on enhancing brand image and reputation. Most companies elaborate their focus on cost savings through conservation of resources, efficiency improvement and implementation of Clean Development Mechanism (CDM) projects, but do not consider these as the primary reasons to embrace corporate responsibility. Some of the reporters consider that the global meltdown has brought CR into the limelight. The focus for these reporters is on monitoring CR performance in order to identify operational shortcomings, inefficiencies and potential risks, which is a first step to improve internal systems and processes. Many such interesting facts have been presented in this report and I believe you will find it useful and relevant to your business, and help facilitate your move to include CR in your overall business strategy.

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Director
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The term "corporate responsibility" (CR) is used throughout the survey to describe the ethical, economic, environmental, and social impacts and issues that concern the private sector. There are many different terms used to capture this concept, including sustainability, corporate social responsibility, corporate citizenship, ESG (environmental, social, and governance), and others.

Executive summary

Trends in corporate responsibility reporting in India

31% of the companies report on their CR performance

71% of the reporters use GRI guidelines for CR reporting

Strengthened reputation and brand and ethical considerations emerge as top drivers for companies to report on corporate responsibility

Corporate responsibility strategy and approach

16% of top 100 companies have a CR strategy in place

68% of the reporters have systems for managing, measuring and reporting on CR issues

42% of the reporters link CR into governance structures

Corporate responsibility – topics and issues

23% of the companies report the business risk of climate change

21% of the companies disclose their Green House Gases (GHG) emissions

13% of the companies identify and disclose the business risk of CR issues in their supply chain

Corporate responsibility report assurance

52% of the reports are externally assured

62% is the share of accountancy firms as assurance providers to CR reports

Oil and gas, construction and building material and IT companies lead with the highest number of assured reports

This survey was designed to gain insights into corporate responsibility reporting trends in India. The survey is on the lines of the KPMG International Survey of Corporate Responsibility Reporting 2008 which was released in October 2008. The survey includes top 100 listed companies in India by revenue. KPMG examined information disclosed publicly by these companies to discern emerging trends in corporate responsibility reporting.

As you will see in the results, about one third (31) of top 100 companies in India report on CR performance and 52 percent of these reporters provide reference to their sustainability strategy. This is an indication that CR issues, although not driving business decisions at present, are gaining prominence in the boardroom agenda. Most of the reports focus on success stories and are silent on the low performance areas, which in a way defeats the purpose of reporting transparently and hence fails in its objective of gaining the trust of the stakeholders. There is an interesting trend of reporting corporate social responsibility (CSR) initiatives as part of annual reports and/or on the company website. The CSR agenda for most companies include education, health care, HIV/AIDS and community development but there is minimal clarity on how companies decide on such CSR projects. Reporting on stakeholder engagement is weak and companies do not articulate how they identify and prioritise the stakeholders and how they benefit from such engagement. It is also not clear how this engagement feedback is used in the companies to arrive at material issues or develop business strategies. However, it is interesting to note that companies are wiling to seek third party opinion on their reports and 52 percent of the reports are externally assured. Such external assurance is mostly provided by accountancy firms in India. A majority of these reporters use the Global Reporting Initiative (GRI) guidelines as a basis for reporting and the emphasis is on obtaining A+ application level rather than focusing on what is material to their operations. Some of the reporters also provide references to sector-specific guidelines.

About the survey

Objective

The study was designed to examine the CR reporting trends in India's largest companies. This survey is the first of its kind in India. The goal of the study was to provide insight into the overall Corporate Responsibility (CR) strategies and approaches adopted by the top Indian companies and the CR-related reporting and assurance trends.

Methodology

Finalisation of the N100 group	The group of companies selected for the survey is called the N100 group. The N100 group was selected to cover the top Indian listed companies by revenue for the financial year 2009-2010.
Preparation and finalisation of the questionnaire	The basis of the study was a survey that captured, over 50 data points from the corporate responsibility information disclosed by each company in the N100 group on public domain.
Populating the CR questionnaire	The information used for completion of the questionnaire included public domain information from company websites, annual reports, CR reports, UNGC communication on progress (COP), communication on Carbon Disclosure Project.
Compilation of results	Compilation of the results was done partially through online survey tool and through focused group discussions within KPMG.
Interpretation of results	The results of this survey have been analyzed and interpreted by a team comprising national and international members of KPMG's Global Sustainability Services.

Corporate Responsibility reporting trends

CR reporting is at a very nascent stage in India. One third (31) of the N100 companies report on corporate responsibility performance in the public domain. Construction and building material companies are leaders in sustainability reporting followed by metals and mining, oil and gas and chemical companies. Transportation, finance, trade and retail and communications and media lag behind with almost no reporters amongst N100 companies.

Most companies present information on few elements of corporate responsibility as a part of their annual reports. As many as 73 companies among the N100 have integrated CR information in their annual reports and about 96 percent of these companies provide only qualitative information in the form of a section highlighting Environmental, Health and Safety (EHS)-related initiatives. These reports do not touch upon governance for sustainability and lack focus on CR metrics and performance, according to our survey findings. Such reporting does not help companies in communicating their performance to a broad range of stakeholders, and hence defeats the very purpose of reporting. On the other side, only 3 out of the 31 CR reporters present detailed CR performance as a part of their annual report.

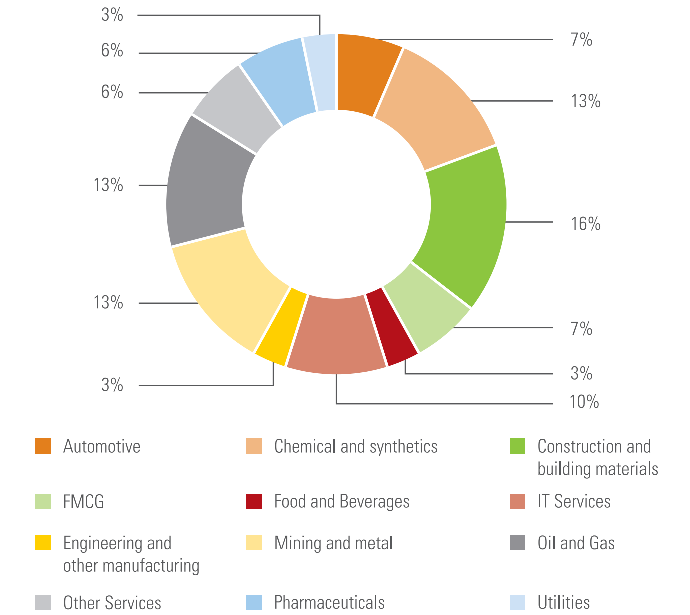
Drivers for reporting

"Strengthening reputation and brand" and "Ethical considerations" emerge as the top drivers amongst the N100 companies to report on CR. "Cost savings", "Economic considerations", "Innovation and Learning" and "Employee motivation" rank very low in the drivers list in contrast with global trends where "Economic considerations" tops the list followed by "Innovation and Employee motivation".

Usage of CR reporting standards

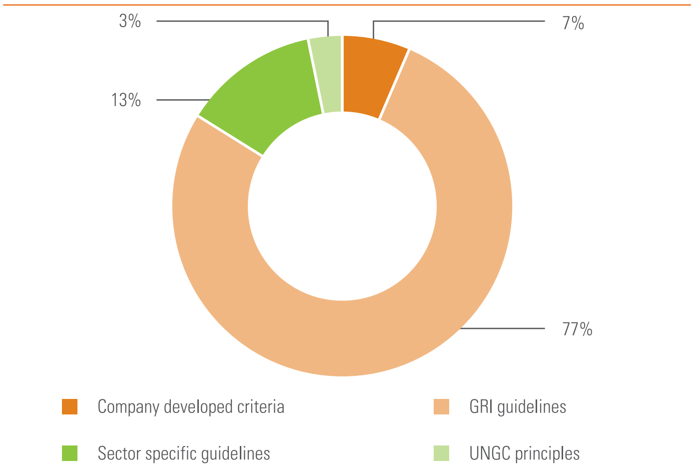
Out of the 31 reporters, 27 use reporting guidelines/frameworks for reporting CR performance. Of those 27 companies, 77 percent use Global Reporting Initiative's G3 guidelines as a CR reporting framework. Further, 13 percent of the companies use sector specific guidelines and 7 percent use self- developed criteria to report on CR performance. It is observed that the regular reporters are slowly graduating towards using sector specific issues and metrices while developing a report and are focusing on defining materiality. It is also observed that the reporters integrate various relevant sustainability frameworks to address a larger set of stakeholders, such as UNGC principles; IFC standards on sustainable development; API/IPIECA Guidelines; and GRI G3 sector supplements.

Sector wise breakup of N100 reporters



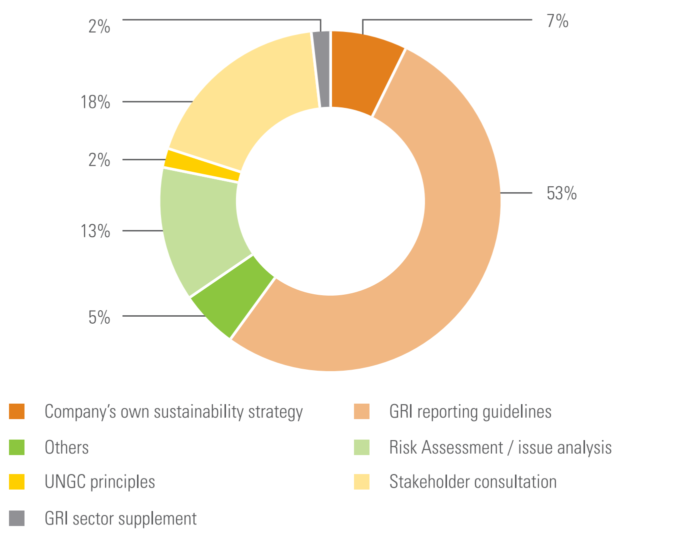
Source: Corporate Responsibility Survey 2011, KPMG India.

Usage of CR reporting standards amongst N100 reporters



Source: Corporate Responsibility Survey 2011, KPMG India.

Basis for choosing report content amongst N100 reporters



Source: Corporate Responsibility Survey 2011, KPMG India.

Amongst the reporters only 15 declare GRI application levels. It is interesting to note that 14 of these reporters declare GRI G3 A+/A application levels whereas only one reporter declares B+ application level. There is an increasing trend amongst Indian companies to develop reports in accordance to highest application level under GRI guidelines. Most reporters believe that a higher application level is equivalent to better sustainability performance and in this process they lose out on communicating key priorities to the stakeholders. The reporters primarily include those from amongst IT services, oil and gas and construction and building material companies in India. This is in line with other survey results where these three sectors emerge as leaders in CR reporting.

Selecting the report content

Amongst the reporters, 53 percent use the GRI's principles to define report content and quality and GRI indicator protocols to develop the CR report content. Only 18 percent use feedback received from stakeholders to arrive at the report contents. Usage of company's risk assessment framework and company's CR strategy to select report content is extremely low which reaffirms the fact that CR issues do not have clear linkage with the business strategy of the companies.

CR and the investment community

The survey reveals that only 9 of the N100 companies made efforts to communicate CR performance to the financial community by making CR reports and information accessible in the investor section of their web pages or addressing CR issues in the meetings with the investment community.

Listing on sustainability indices

Only three Indian companies are listed on the sustainability indices such as the DJSI and FTSE4Good and the sectors include IT services and Metal and mining.

Corporate Responsibility strategy and approach

In order to assess the strategic impetus behind CR activities, the objectives, targets, KPI's, governance structures, and risk management frameworks adopted by the N100 companies were evaluated. The analysis of the findings have been highlighted in this section. It was found that only 16 percent of the N100 companies have a CR strategy with well defined objectives and SMART (Specific, Measurable, Achievable, Realistic and Time-bound) targets. This clearly indicates that although many companies have started reporting their CR performance they have not channeled their efforts under a well defined CR strategy. Only 12 reporters elaborate on their strategic intent by clearly defining performance indicators that relate to the CR objectives and also report on annual performance and progress. Here, there is a big gap in comparison to the global G250 companies where 73 percent define objectives, 65 percent have KPIs related to the set objectives and 60 percent report on such identified indicators.

The mining and metal and IT services sectors top the list of companies that have a CR strategy.

Use of normative standards and principles

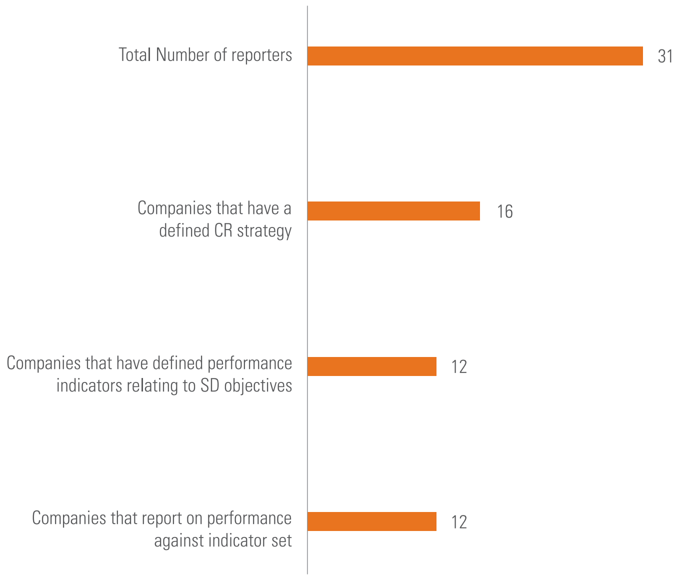
When it comes to usage of normative standards and principles for CR management, 36 percent percent of the N100 companies deploy sustainability standards and principles in their communications on corporate responsibility. Amongst them, United Nations Global Compact's 10 principles are the most popular with 78 percent companies using them. There is an increasing trend towards the use of sector specific principles such as the ICMM principles for mining and metal companies, Cement Sustainability Initiative, API/IPIECA guidelines for oil and gas sector, etc. Issue specific standards such as UN declaration on Human Rights are also referred to in several reports.

Management systems and frameworks

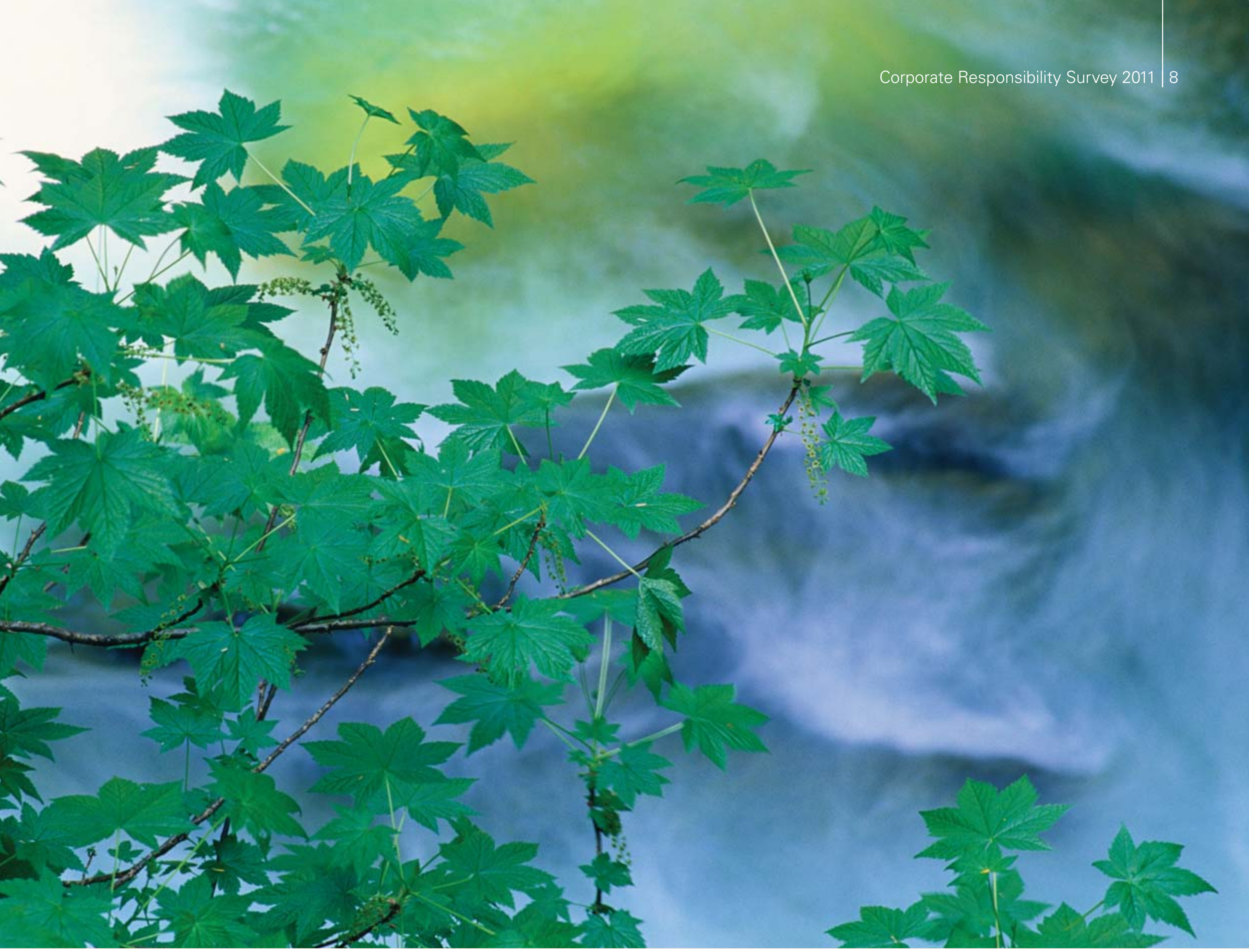
Overall 25 percent of the N100 companies have established systems for managing, measuring and reporting on key CR issues. For the remaining reporters, absence of a management system or framework is a concern as their CR reports may not reflect their actual performance.

The construction, mining and metal, and oil and gas sector standout in this regard with most of the companies having a robust CR management system. On the other hand sectors such as communications and media, electronics, trade and retail and transport do not have adequate systems and are more likely to report inaccurate CR information.

Breakup of N100 companies on disclosures on CR strategy

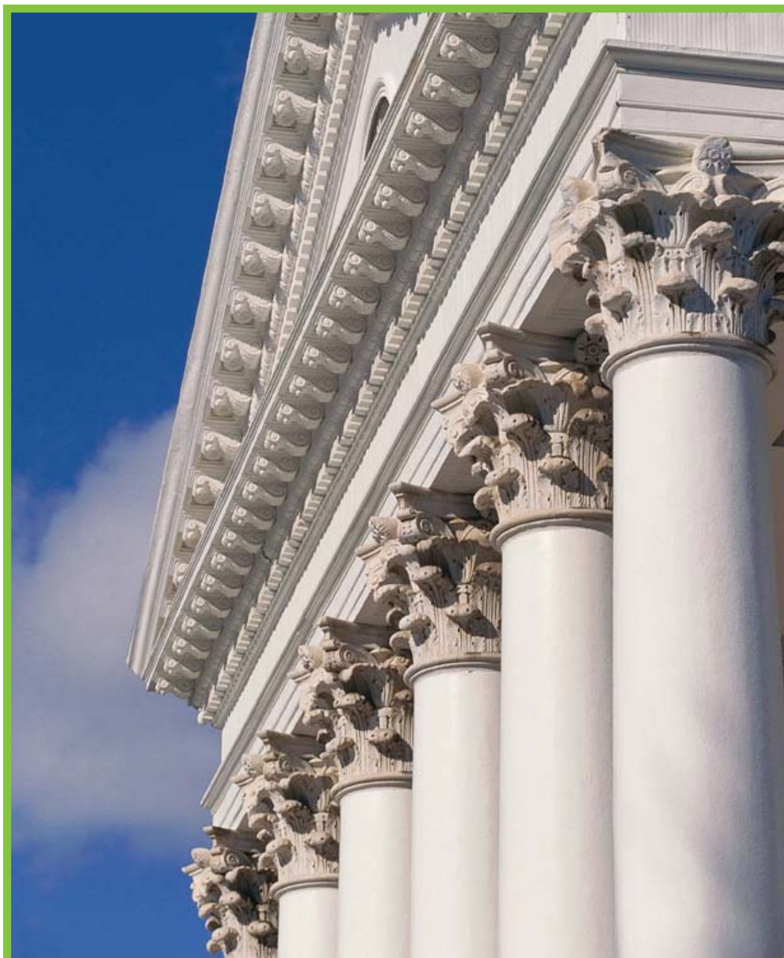


Source: Corporate Responsibility Survey 2011, KPMG India

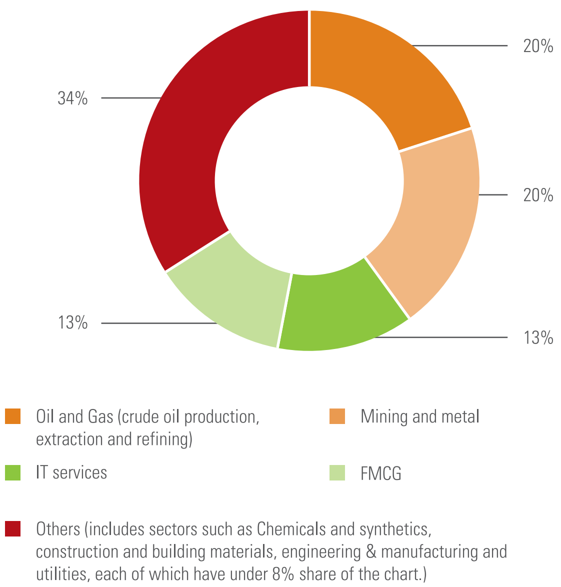


Governance of CR issues

Governance of CR issues has gained significant importance especially in light of greater expectations from stakeholders on responsibilities, ethical scams in recent times and emerging national and international legislations on CR issues. The survey reveals that 95 percent of the N100 companies declare governance aspects under "Code of Conduct/ Ethics". About 71 percent of the reporters have a dedicated section on corporate governance in their CR reports but only 42 percent articulate the linkage of corporate governance to company's CR framework. When it comes to integration of CR into the governance and risk management framework, only 15 percent of the N100 companies have managed to integrate CR into their governance framework and only 8 percent have managed to embed CR into their risk management framework.



Sector wise breakup of N100 companies that integrate CR in governance framework



Source: Corporate Responsibility Survey 2011, KPMG India

The survey reveals that out of the N100 companies, oil and gas and metal and mining companies emerge as leaders in integrating CR with risk management and corporate governance framework.

CR management standards

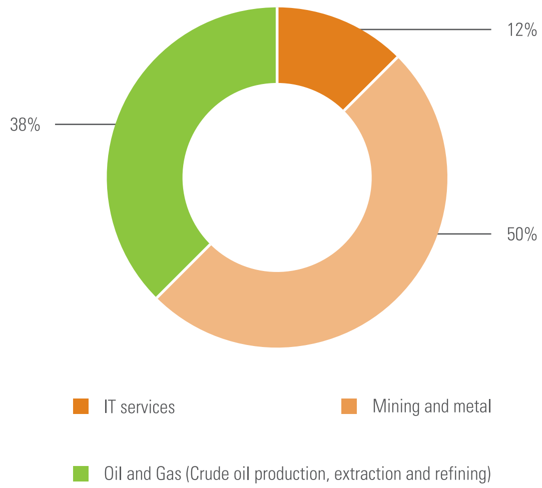
Out of the N100 companies, 56 percent communicate on management standards for CR issues. The most frequently mentioned management standard is ISO 14001 (environment) followed by OHSAS 18001 (occupational health and safety) and SA 8000 (social accountability) for managing CR issues.

Only 2 percent of the N100 companies define the role of internal audit to review the controls over non-financial data. This raises questions over the quality and accuracy of the reported data and outlines where significant work needs to be done to make the reporting process more robust.

Responsibilities for CR management

One way to judge the importance or priority attributed to corporate responsibility by a company is to understand the entity responsible for implementing and managing the CR framework, and whether or not that entity has a direct line of reporting to the Board of Directors. Only 21 percent of the N100 companies have allocated a senior person/ department specifically responsible for CR management. In case of reporters, 78 percent have designated this responsibility either to a standalone Sustainability Cell, EHS department or the Corporate Communication department. What is surprising is the fact that the remaining 22 percent of the reporters have not disclosed on this aspect. This raises a question on whether Indian companies are adequately addressing CR issues at Board or at other equivalent levels within the company.

Sector wise breakup of N100 companies that link CR to risk management



Source: Corporate Responsibility Survey 2011, KPMG India

Corporate Responsibility reporting - topics and issues

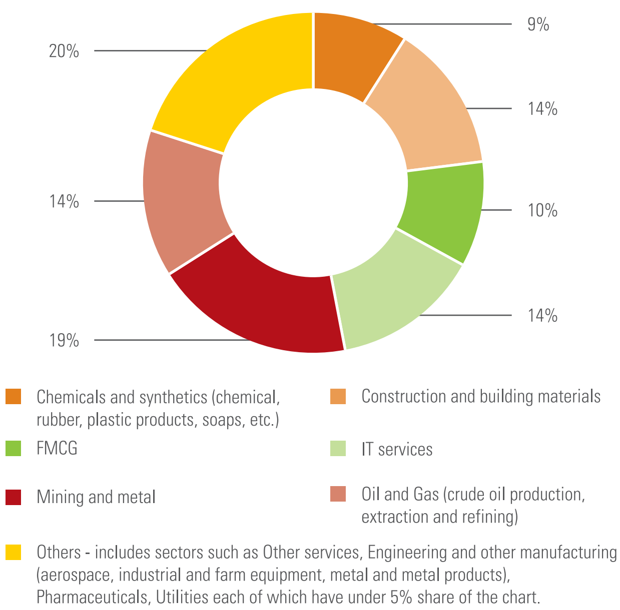
Climate Change has emerged as one of the most important CR issue globally. Pressure from the media, consumers, investors, NGOs and governments has forced the companies to consider the effects of climate change. Although it is an important issue, only 23 percent of the N100 Indian companies report on the business risk of climate change. It is also interesting to observe that another 26 percent report on business opportunities related to it. Metal and mining, and oil and gas companies take the lead in identifying risks and opportunities associated with Climate Change. Sectors such as FMCG, pharmaceuticals, chemicals and automotive remain laggards when it comes to talking about climate change from a strategic perspective.

Disclosures on GHG emissions (GHG footprint) -

As mentioned earlier, only 26 percent of N100 companies identify opportunities related to climate change, but at the same time do not necessarily measure and disclose their GHG footprint. Only 21 percent of N100 companies are disclosing their carbon footprint. It is an indication that the companies are focused on short-term goals and have not initiated focused actions towards addressing this issue in the longer term.

A majority of the companies that disclose their GHG emissions do so only for their core operations (81 percent), of which only 19 percent include extended operations such as employee commuting, business travel and supply chain operations in their GHG footprint. Mining and metal companies and IT services companies take lead in disclosing their carbon footprint followed by construction and building materials and oil and gas sector.

Sector wise breakup of disclosures on GHG emissions

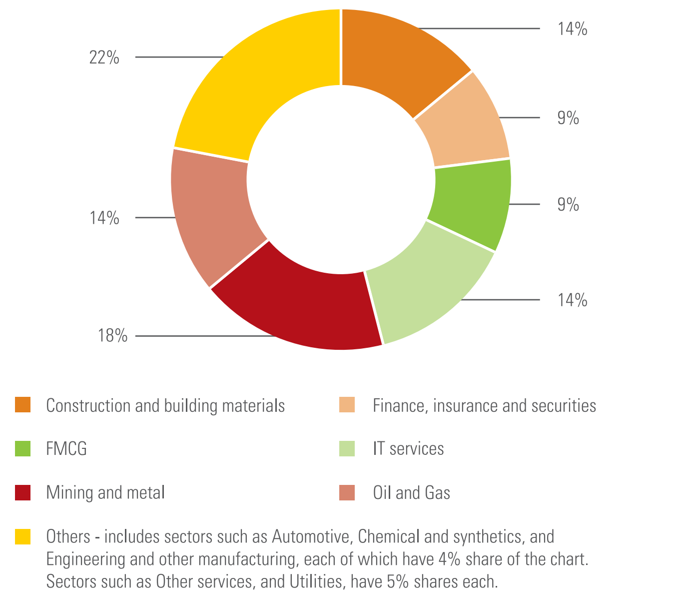


Source: Corporate Responsibility Survey 2011, KPMG India

Carbon Disclosure Project -

Of the N100 companies, 22 percent participate in the carbon disclosure project (CDP). Metals and mining, oil and gas, IT services, construction and building material companies are the top sectors to report in the CDP. It is interesting to note that although the financial services sector does not perform well in the survey, it performs better in the case of CDP disclosures by Indian companies.

Sector wise breakup of CDP disclosures



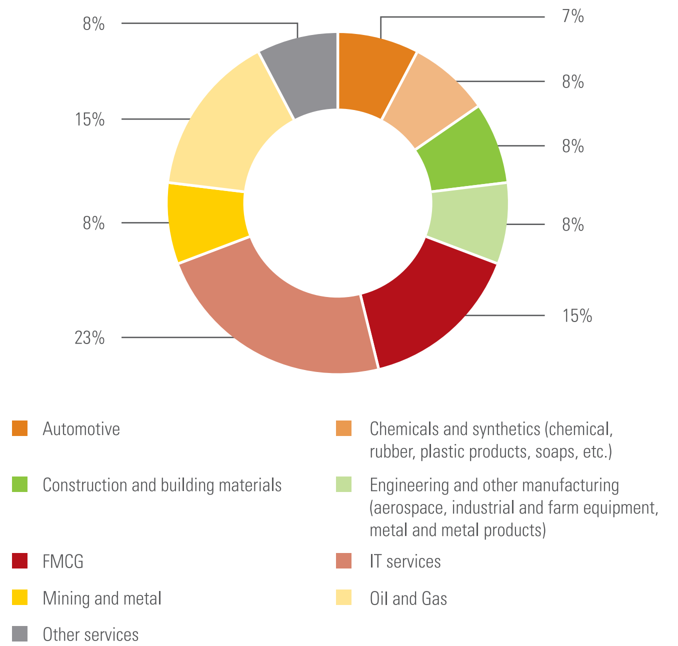
Source: Corporate Responsibility Survey 2011, KPMG India

Supply chain risk

As compared to financial accounting, where companies are expected to report only on entities they own, in CR reporting the boundary for responsibility on impacts and performance often extends beyond these traditional lines. Today companies are held accountable for actions taken by entities in their value chain that they may not own or control. Today, only 13 percent of the N100 companies disclose the business risks of supply chain due to CR issues and 10 percent discuss on how CR issues are integrated into their supply chain management. A sectoral analysis reveals that the IT services, FMCG and oil and gas companies focus more on supply chain CR issues in comparison to others.

Appreciating the risks associated with supply chains does not translate into adequate sustainability standards and monitoring audits. A mere 5 percent of the N100 companies having CR code of conduct include regular supply chain audits as a part of their normal operations. Amongst all reporters, only one company discloses information on suppliers audited and screened on CR issues.

Sector wise breakup of Supply chain risk



Source: Corporate Responsibility Survey 2011, KPMG India

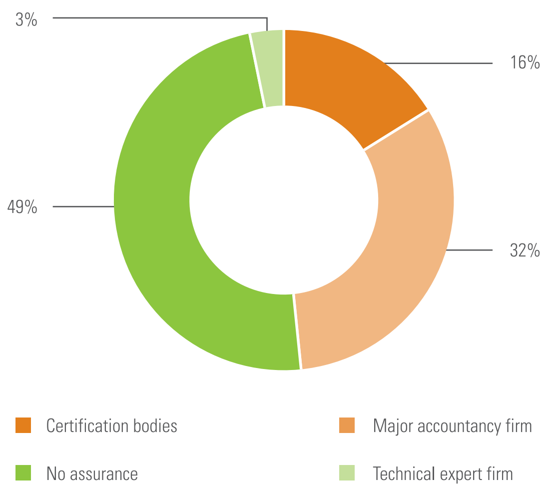
Corporate Responsibility report assurance

External Assurance

Third party assurance of corporate responsibility reports has been accepted by a large number of CR reporters in India. Amongst all Indian reports, 52 percent of reports have a formal assurance statement. In comparison to this, of the 56 percent of G250 companies that have issued a report including some form of third party commentary, only 40 percent had a formal assurance. The IT services, construction and building materials and oil and gas sectors in India have the most assured reports.

There is an increasing trend of companies engaging accountancy firms for assuring their CR reports in India. Out of the 31 CR reports in India, 16 have been externally assured of which 10 have been assured by major accountancy firms. They are followed by certification bodies as assurance providers. The survey also reveals that the major drivers for companies to engage with third party assurance providers are increasing credibility of the report and improving the reporting process. It was also observed that a majority of the reports that are being assured use ISAE 3000 standards. Reporters in India have just begun to adopt AA 1000 Assurance Standards for sustainability reporting with three reports assured on AA 1000 alone and two using a combination of AA 1000 and ISAE 3000 assurance standards.

Breakup of assurance providers



Source: Corporate Responsibility Survey 2011, KPMG India

Level of Assurance

Of the 16 CR reports that have been externally assured, all have assurance statements based on the limited or moderate level of assurance i.e. the assurance provider gives an opinion in a negative form that minimises the risk for the assurance provider and at the same time requires less work and hence less cost to the CR reporter. However, one of the reporters has availed high level of assurance under AA 1000 assurance standards for a few of the report parameters.

Way forward

Corporate Responsibility in India is still in its infancy with handful of companies reporting on CR performance as compared to more mature European and Australian markets. However, there are few companies that have reached advanced stage having attained GRI G3 A+ application levels. It is interesting to note that most of the reports focus on GHG performance and elaborate on Clean Development Mechanism projects registered with UNFCCC. This is an indication that companies have begun to realise the business case of sustainability and that climate change tops the sustainability agenda.

There is enough evidence that Indian companies are now paying increased attention to corporate responsibility issues and large companies have started to establish a clear link between corporate responsibility and risk management. A recent trend observed is to include sustainability elements as part of internal audit so that the issues are discussed at the board level. However, there is still a long way to go before corporate responsibility is fully integrated into business strategy.

Although corporate responsibility seems to be in the experimental phase in India as of now, we expect to see a significant progress in both the number of reporters and quality of information reported, in the coming years. We expect Indian reporters to focus on presenting information related to:

- Sustainability issues, challenges, dilemmas and opportunities.
- Regulatory environment and fact-based information.
- Information of interest to investors such as materiality of issues in financial terms, vision and strategy statements, goals and targets, etc.
- Explanation on identification and prioritisation of material issues.
- Reader friendly report design.

For CR, at the regulatory level, various directives have been issued and with some still in pilot stage. The Institute of Chartered Accountants of India (ICAI) has set up the ICAI - Accounting Research Foundation (ICAI-ARF), which has undertaken a special project to suggest a suitable framework for sustainability reporting for Indian companies. Further, the Ministry of Corporate Affairs, Government of India in association with the Indian Institute of Corporate Affairs has released the draft voluntary guidelines on social, environmental and economic responsibilities of business. In the financial sector, there is a visible trend to promote environmentally and socially responsible lending and investment, with the Reserve Bank of India recently issuing a circular for highlighting role of banks in promoting sustainable development.

There is no doubt that corporate responsibility is here to stay and businesses have realized the value of embracing CR and more so making it a part of their overall business strategy.

About KPMG Global Climate Change and Sustainability Services

KPMG Global Climate Change and Sustainability Services™ (GCCSS) provides Corporate Responsibility (CR) related services to help businesses and organisations better understand, improve and report on their environmental, social and ethical performance.

KPMG GCCSS practices have over 400 professional staff working in 40+ countries worldwide supported by the wider KPMG network with approximately 138,000 professionals in 150 countries.

We have been influential in driving forward the sustainability agenda through our tri-annual International Survey on Corporate Responsibility Reporting as well as active involvement with leading sustainability organisations such as the World Business Council for Sustainable Development (WBCSD), Global Reporting Initiative (GRI), and standard setting bodies like AccountAbility.

We work within KPMG multi-disciplinary teams with backgrounds in business risk, compliance, finance, tax, audit and certification.

We work closely with KPMG's global sector-specific centres of excellence and have extensive in-house knowledge and experience in various industries.

Our values

- We lead by example
- We work together
- We respect the individual
- We seek the facts and provide insight
- We are open and honest in our communication
- We are committed to our communities
- Above all, we act with integrity

Contact us

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