

CHAPTER 4 ENVIRONMENTAL ASPECT AND SUSTAINABILITY REPORTING

Good Corporate Governance includes socially responsible business practices. A socially responsible approach to business would involve sensitivity to social, environmental and ethical issues by corporate entities. The high levels of public accountability attached to Public Sector Undertakings (PSUs) as a result of their public ownership makes socially responsible reporting by PSUs particularly important. The issue relating to social obligations of Central Public Enterprises was examined by the Committee on Public Undertakings (COPU) in 1992. It was stated by COPU that “Being part of the ‘State’, every public undertaking has a moral responsibility to play an active role in discharging the social obligations endowed on a welfare state, subject to the financial health of the enterprise.” Based on the recommendations of COPU, Department of Public Enterprises (DPE) issued general guidelines in November, 1994. These guidelines basically left it to the Boards of Directors of the PSUs to devise socially responsible business practices in accordance with their Articles of Association, under the general guidance of their respective administrative Ministry/Department. A limited survey of socially responsible reporting by central PSUs in India was conducted by audit in 2006-07 and it was seen that central PSUs were yet to adopt a systematic approach towards socially responsible reporting.

4.1 Sustainability Reporting

4.1.1 There are several methods of reporting on the contributions made by the companies in the area of their social and environmental obligations. Major international initiatives in this regard are the United Nations Global Compact and the Global Reporting Initiative (GRI). Corporate Sustainability is a business approach that creates long term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments. As a part of good corporate governance, companies need to understand and adopt an approach for conducting business that meets the needs of the enterprise and the stakeholders today while protecting, sustaining and enhancing the human and natural capital for the future.

4.1.2 When PSUs manage and report on their sustainability, they are *inter-alia* internally recognising and externally reporting:

- (i) Whether the business objective of profit maximisation is moderated by non-profit social objectives
- (ii) Whether the generation of profits by the PSUs is accompanied by local or regional negative impacts;
- (iii) Whether PSU operations contribute to enriching the quality of the life and address various societal issues relating to corruption, gender, culture and heritage etc;
- (iv) Whether their operations are impacting positively or negatively on the environment and resources (biodiversity, human and ecological health, global warming, resource endowments etc.)

4.2 United Nation’s Global Compact

4.2.1 The ‘United Nation’s Global Compact’ is an initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on them.

Under the Compact, companies are brought together with UN agencies, labour groups and civil society. The Global Compact was first officially launched at UN Headquarters in New York on 26 July 2000. There are 10 principles which the participating companies are required to follow and report through the Communication on Progress (COP) annually which indicates systems in operation and action taken towards each commitment. These principles relate to areas of human rights, labour standards, environment and anti-corruption. These principles are given in detail in **Appendix XX**.

4.2.2 Based on information available on the web site¹, there were 169 companies and business association in India which had pledged commitment to UN's Global Compact. Out of the above 169, there were 47 PSUs who were members of the UN's Global Compact as in November 2007, 24 PSUs were recognized as inactive participants as per Global Compact integrity measures². The separate lists of such PSUs in compliance and in default are given in **Appendices XXI and XXII**.

4.3 Global Reporting Initiative

The Global Reporting Initiative (GRI) is a large multi-stakeholders' network of experts and its vision is that reporting on economic, environmental and social performance by corporate entities should become as routine and comparable as financial reporting. The GRI was formed with the support of the United Nations Environment Programme (UNEP) in 1997.

The GRI Guidelines provide the most common reporting framework used in the world for social responsibility reporting. The GRI seeks to continually improve its Guidelines. The present guidelines G3 (third version) were launched in October 2006 and are built on the G2 (second version) released in 2002, which in turn were developed from the initial Guidelines G1, which were released in 2000.

The G3 guidelines consist of principles and disclosure items (the latter includes performance indicators). The principles help reporters define the report content, the quality of the report, and give guidance on how to set the report boundary. Disclosure items include disclosures on management of issues, as well as performance indicators. Indicator protocols are prescribed for aspects relating to economic factors, environment, product responsibility, labour, human rights and society. The indicator protocol relating to the environment provides for reporting on aspects of material usage, energy usage, water usage and emissions of effluents, and waste. Based on information contained in the GRI website, no central government PSU is reporting systematically in accordance with the GRI protocols.

4.4 Initiatives relating to environment

A limited survey was conducted by audit to collect the information from government companies in the petroleum, power, mining, fertilizer, coal & lignite and telecommunication sectors on measures taken by them to conserve energy and water and to control emissions. Based on the information made available by the government companies shown at **Appendix XXIII** took initiatives in these areas during the period 2004-05 to 2006-07.

4.5 Conclusion

There is a need to promote a drive in PSUs towards greater Corporate Accountability on social, environmental and ethical issues that have an impact on the society and the

¹ *Unglobalcompact.org*

² *These companies have either :*

- ❖ *Failed to submit a COP within three years of joining the Global Compact or*
- ❖ *Failed to submit a COP within two years of submitting their last COP*

environment. Moreover, there is a need for developing consensus on a standard reporting format and a system for providing assurance on such reports by an independent agency. The framework developed by GRI provides a reporting structure which could be suitably modified to develop reporting requirements for central government PSUs. To start with, every PSU may report on its initiatives towards socially responsible business practices in a separate section in its Annual Report.

New Delhi
Dated:

(BHARTI PRASAD)
Deputy Comptroller and Auditor General
cum Chairperson, Audit Board

Countersigned

New Delhi
Dated:

(VINOD RAI)
Comptroller and Auditor General of India