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UNDISCLOSED RISK:
Corporate Environmental and Social Reporting in Emerging Asia

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Foreword

The current global financial crisis has highlighted the need to manage risk and has given new impetus to an old debate in the investment community on how to value environmental risks. While evidence increasingly shows that issues such as climate change and water scarcity pose material risks for companies, progress on pricing these externalities has been somewhat slower, particularly in emerging markets.

In Europe, Japan and the United States, many corporations now measure and manage their emissions of greenhouse gases. There has also been a sharp rise both in environmental corporate reporting and in climate-related shareholder resolutions, reflecting demands from investors who want to know how companies are managing the risks and opportunities associated with a warming world. New and growing interest in the investment community on the issues of water scarcity, deforestation, and natural resource depletion, suggests that climate change may have opened a door through which a multitude of environmental issues are changing the way the investors value companies.

The relevance of environmental sustainability to investment must not be limited to London, New York, and Tokyo. Emerging markets have grown at an unprecedented rate in the past 20 years, driven by investments made by both local investors and large institutional investors in OECD countries, however insufficient information on how companies in emerging markets manage environmental risks and opportunities hinders investors' ability to make sound long-term investment decisions. Understanding which environmental and social risks are material will help investors seek appropriate information from companies, assess corporate value, and direct capital to sustainable enterprise. Re-directing capital injected into South and Southeast Asia's growing economies toward less environmentally destructive economic activity will not only reduce investment risk, it will also help support the region's long term prosperity.

Undisclosed Risk focuses on corporate transparency on environmental risks, and lays the groundwork for understanding environmental disclosure and reporting issues in emerging markets through an investor lens. It is the second report in a series establishing the link between issues like climate change, air pollution, water supply, and natural resource depletion and traditional financial analysis on corporate value and financial strength for companies in six key Asian economies — India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.

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Executive Summary

In a world where the physical impacts of environmental degradation are already being felt, and most governments have embraced some form of regulation to mitigate further damage to the environment, environmental concerns are increasingly relevant to companies' bottom lines. Companies will both impact and are dependent on the environment and current environmental trends will present companies with both risks and opportunities. In its report *Emerging Risk,* World Resources Institute (WRI) identified the critical trends that countries in emerging Asia face; trends that have a material financial impact on key sectors in the region (see Box).

Today, if and how companies manage trends such as climate change or water scarcity is of direct interest to investors. In fact, many investors and financial analysts regard a company's performance on environmental and social aspects affecting their business as a proxy for good management.

In developed markets, company disclosure on environmental, social, and governance (ESG) performance on their website, in their annual report, or a separate corporate sustainability* report, is routine practice. In emerging markets, however, such reporting still lags behind.

Undisclosed Risk: Corporate Environmental and Social Reporting in Emerging Asia examines the current state of public corporate sustainability reporting in English by the ten largest companies in each of six Asian countries—India, Indonesia, Malaysia, Philippines, Thailand and Vietnam. This report does not cover corporate governance reporting and its drivers, although a national corporate governance code may have a positive influence on company transparency on environmental and social factors.

The companies examined include both multinational and national businesses, and cover sectors ranging from resource-based energy, mining, and oil and gas corporations to service sector banking, telecommunications, and transportation. The companies are ranked according to a four point criteria developed by WRI, which draw on guidelines from the Global Reporting Initiative[1] and from the international consultancy SustainAbility's Global Reporters work.[2] To put the results in context, we also examine the regulatory and non-regulatory drivers in place in each country to encourage corporate disclosure on sustainability risks.

This study provides an investor perspective on corporate sustainability reporting in the six focus countries. It is intended for both foreign and local investors in key emerging Asian economies, as well as sector and equity analysts and researchers that cover the region.

Undisclosed Risk is part of a multi-report research project† between WRI and the International Finance Corporation (IFC) that studies the financial materiality of key environmental issues in India, Indonesia, Malaysia, Philippines, Thailand and Vietnam. The project seeks to help equity investors in emerging Asia to mitigate risks and take advantage of opportunities by directing capital toward environmentally sustainable listed companies.

At a Glance: Environmental Trends

Trends

- Deforestation
- Water Scarcity
- Climate Change
- Food Security
- Energy Security
- Air Pollution
- Urbanization
- Population Growth

Key Findings

- Sustainability reporting in the six focus countries has improved in the past 5 years through the efforts of national governments, training and consulting organizations, national securities regulators, accounting professional associations and others.

- Company disclosure in emerging Asia is typically focused on community giving and philanthropic activities. In general, such reporting is of more interest to stakeholder groups such as local communities and employees than to investors. We found most of the sustainability information disclosed to be of limited relevance to mainstream investors.

- Indian companies examined in this study were ahead of the field, with the majority producing sustainability reports that we evaluated as average or above-average and somewhat relevant to investors. In contrast, the Vietnamese companies surveyed had the least progressive disclosure.[3]

- Companies with above average reporting are responding to external pressures, including pressure from stakeholders and parent companies, as well as reputation and supply chain concerns.

- Each country, with the exception of Vietnam, has some form of regulations, codes, awards, support organizations, or market initiatives that encourage sustainability reporting. Malaysia is the most advanced in this respect.

- Investors and equity analysts in emerging Asia often obtain pertinent information on sustainability risks through non-public informal channels. This practice likely gives some investors a competitive advantage. However, it does little to help tip the scale toward mainstreaming corporate sustainability reporting in the region.

**Throughout this report the term 'sustainability' refers to both environmental and social aspects.*

†*The first report in this series* Emerging Risk: Impacts of Key Environmental Trends in Emerging Asia *was published in April 2009 and is available at www.envest.wri.org and www.ifc.org.*
The next reports are sector specific and will include coverage of the following sectors: Food and Beverage, Power and Utilities, and Real Estate.

I

In Context: Investor Needs And Environmental And Social Reporting

Corporate sustainability reporting provides vital information for investors, including insights on the sustainability issues facing a company, as well as its strategic approach to mitigating environmental and social risks and taking advantage of opportunities. It can also present the impacts of extra-financial issues in a way that they can be, in some cases, translated into financial value and bottom line impact.

In Europe, Japan and the U.S., corporate sustainability reporting from large public companies is a relatively well established practice. A growing number of investors mine corporate sustainability reporting for information that can shed light on a company's long-term prospects. Leaders in the field are even moving beyond risk oriented sustainability reporting toward identifying environmental opportunities for strategic innovation and market building.[4]

The trend toward increased corporate transparency on environmental and social performance is lagging in emerging markets, despite the fact that sustainability issues may be even more material for investors in these dynamic, rapidly developing regions. While general investor interest and activity in key Asian markets is booming, most local companies do not provide sustainability information that is relevant to investor needs, and which investors can use when weighing the risks and benefits of making an investment. This is ultimately to the detriment both of the investor and of the company under consideration. In this report we investigate the reasons, and the implications for investors.

Identifying Investor Needs

Corporate sustainability reporting is usually designed to serve a wide variety of audiences or stakeholders, including local communities, customers, employees, and investors. As a result, both the general content and presentation of information is often not useful for investors. In Asian reporting, this is compounded by an emphasis on 'community' and 'social' issues, which, unless linked to company vulnerability, are of secondary interest to investors focused on risk management. A 2007 study by the Corporate Register* found that "corporate responsibility" reporting, defined as compliance oriented environment, health and safety (EHS), community and social reporting, is still the dominant type in Asia.[5] Our survey results reported in Section III support this contention.

Ideal sustainability reporting aimed at investors would contain the following elements: a time horizon beyond twelve months; meaningful raw data trends with sector wide comparisons; commentary explaining the materiality of issues raised in financial terms and giving a business context to past and current performance; and information on a company's processes for identifying and managing risks.[6]

Good disclosure practices, which include these elements, can provide investors with a realistic picture of a firm's level of exposure to emerging sustainability risks and opportunities, such as water scarcity and climate change. Thorough corporate disclosure can also provide crucial insights into the overall quality of management. The quality of public disclosure on sustainability issues (particularly disclosure that goes beyond legal requirements) is viewed by many investors as a proxy for a company's degree of transparency, sense of shareholder rights, and overall management quality.[9]

The standard quality of sustainability reporting of most companies, in these emerging markets or elsewhere, falls far short of this ideal. A recent survey of asset managers found that lack of transparency was the main obstacle to incorporating environmental, social and governance (ESG) principles into investment decisions in emerging market equities (figure 1).[10]

The examination of sustainability issues as part of the investment decision making process is not a fully established practice, though it's becoming increasingly important. Investor knowledge about incorporating environmental and social factors into valuation is evolving. Therefore even high quality sustainability reporting may not influence investment decisions unless investors know how to interpret it.

India: Corporate Reporting Leader

Previous studies of corporate sustainability reporting that include some of the six focus countries, while not comprehensive, show India as the leader in the field.

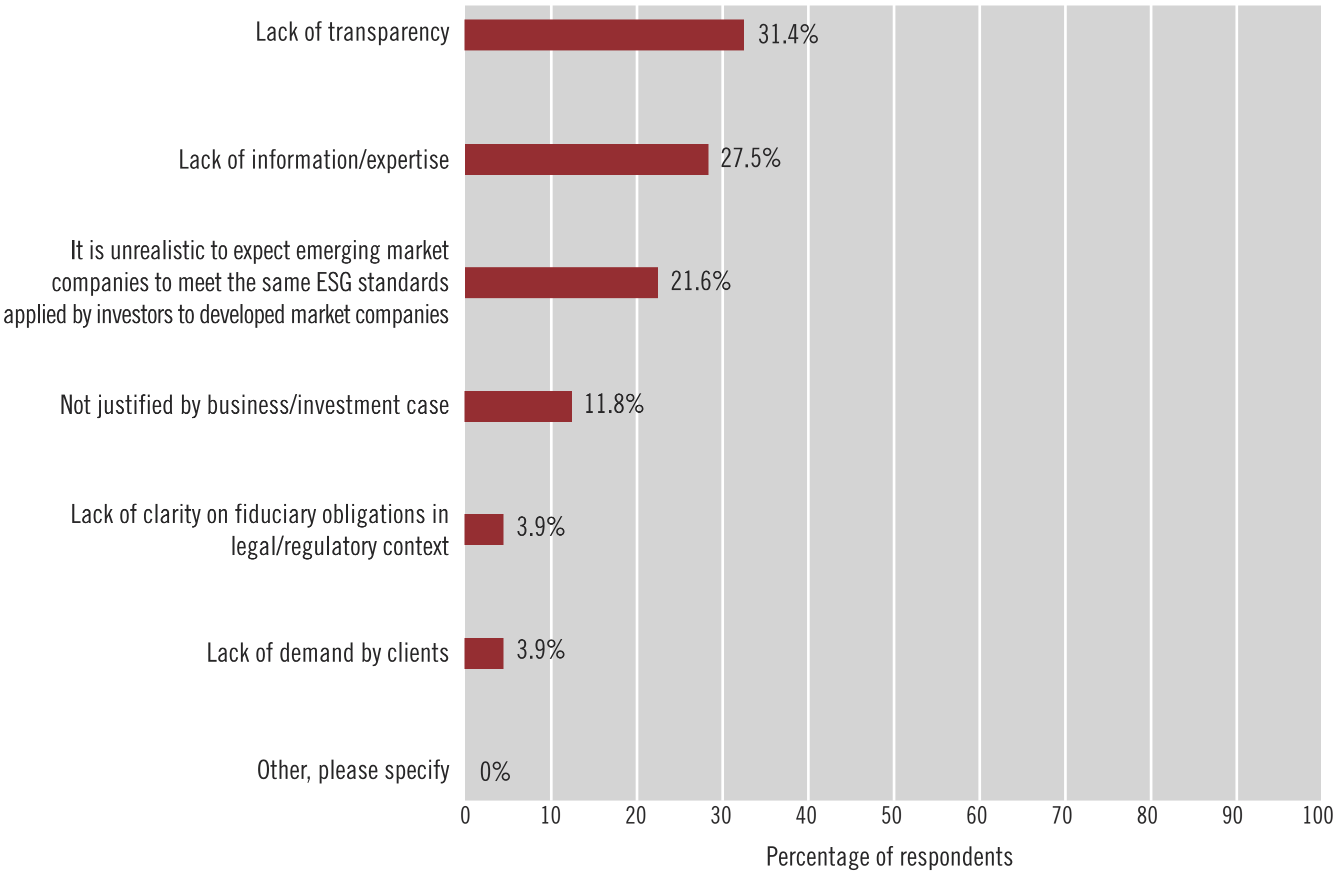
- A January 2008 study by the Sustainable Investment Research Analysts Network (SIRAN), KLD, and the Social Investment Forum (SIF) studied sustainability reporting in seven emerging markets in high environmental impact sectors and found that 92 percent of the Indian companies made some corporate social responsibility (CSR) disclosure. Most commonly, this was in the form of a separate CSR section of their annual report.[7]

- The 2007 Asian report of the Carbon Disclosure Project (CDP), which provides data on the level of corporate reporting on carbon risk exposure, reported a low overall corporate response rate to their questionnaire of 26 percent. However, by far the highest response rate was from India—13 companies responded to the questionnaire, compared to one from Indonesia, one from Malaysia, and two from Thailand.[8]

**Corporate Register is an independent, privately held and self-funded organization based in the UK which offers CSR reporting research, news and a repository. For more information, see www.corporateregister.com*

Figure 1: Survey of Asset Managers (2007)

Asset managers: What is the main obstacle to incorporating ESG principles in the investment process for emerging market equities? (74 respondents)



Source: International Finance Corporate and the Economist Intelligence Unit

Sustainability reporting and corporate strategy

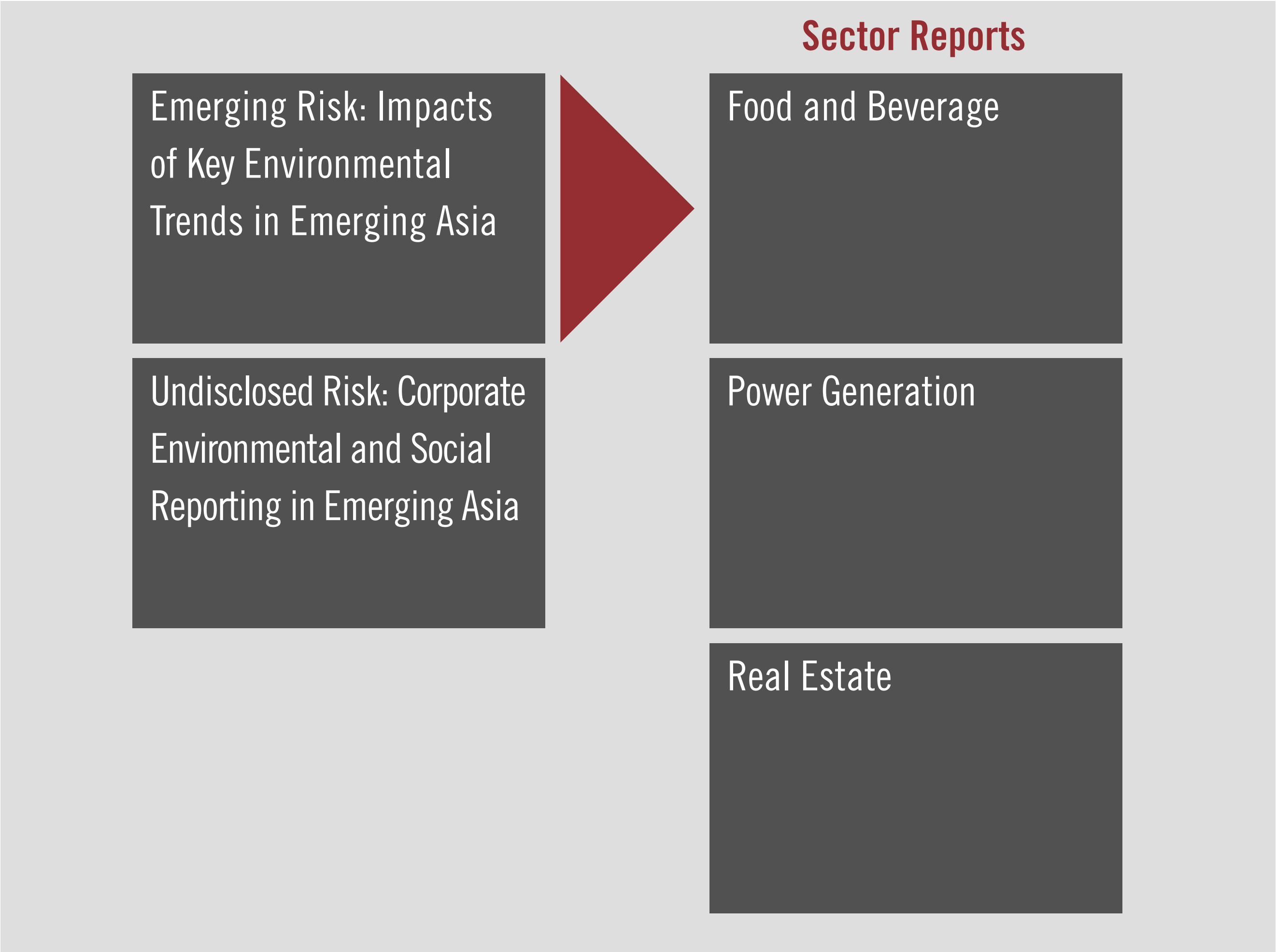
There is a clear link between the quality of public sustainability reporting by companies and the existence and quality of a corporate sustainability strategy. If a company has few environmental and social programs in place, there is little on which to report.

The challenge of improving corporate sustainability reporting is therefore linked with the challenge of convincing companies that sustainability issues are of strategic importance. Conversely, if a firm begins gathering and reporting, at least internally, sustainability information, managers will be required to review it and strategic discussions at Board level may begin to take place.[11]

Bridging the Gap for Investors: WRI and IFC Report Series

To assist investors in emerging Asia to navigate through the gaps in sustainability information and understand how to use it, the World Resources Institute (WRI) and the International Finance Corporation (IFC) are producing a series of studies on the financial materiality of key sustainability issues in India, Indonesia, Malaysia, Philippines, Thailand and Vietnam. This report accompanies the first publication in the series—*Emerging Risk: Impacts of Key Environmental Trends in Emerging Asia*—which identifies important sustainability trends in the six focus countries and their impacts on critical sectors.

Figure 2: Project Overview



Source: WRI

Undisclosed Risk: Corporate Environmental and Social Reporting in Emerging Asia complements *Emerging Risk* by providing examples of, and analyzing, the information that investors in the region currently have access to when evaluating whether companies they invest in are positioned to manage environmental risks and create value.

Focusing on the same six Asian economies, this report aims to:

- Evaluate the quality of current corporate sustainability reporting of the ten largest listed companies in each country.
- Describe the regulatory and non-regulatory drivers in place in each country that encourage corporate sustainability reporting.

Undisclosed Risk will be followed by sector reports—covering the same six focus countries—which will demonstrate how material environmental trends affect value drivers, and thus financial valuations, in each sector. Ultimately this collective body of research (as illustrated in Figure 2) seeks to draw actionable conclusions about the financial materiality of environmental issues and provide means to integrate these issues into traditional valuation models, thereby aiming to increase capital formation in sustainable listed companies in emerging Asia.

II

Drivers of Environmental and Social Reporting

Companies choose to report (or not) on sustainability factors for a variety of internal and external reasons, including stakeholder pressure and stock exchange listing requirements. This section explores the drivers for corporate sustainability reporting, first briefly in developed markets, then in our six focus countries in emerging Asia.

Sustainability reporting and drivers in developed markets

On an aggregate level, more companies in developed countries are providing information on their sustainability performance than those in emerging markets. KMPG, which has studied corporate sustainability disclosure since 1993, provides a series of data that demonstrates the evolution of sustainability reporting in developed countries. KPMG's most recent findings, released in 2005, found that 52 percent of the Global 250 (a subset of the largest companies in the Fortune 500) provide a separate corporate responsibility report, while 68 percent provide sustainability information in their corporate reporting.[12] In addition, the study shows that reporting has evolved from purely environmental, to true 'sustainability' reporting, which incorporates social and economic reporting in addition to environmental.

Table 1 describes a range of regulatory and non-regulatory drivers in developed markets that encourage or mandate corporate sustainability reporting. These drivers can either require or encourage companies to report on environmental and social issues, as well as influence the type and quality of information that is reported.*

However, having incentives in place does not guarantee that the sustainability information reported by companies meets the specific investor needs described above. Investors must convey their information needs to companies and encourage them to address these issues in their reports.

Sustainability reporting and drivers in emerging Asia

As stated above, Asian companies provide limited sustainability reporting. However, a variety of drivers are in play with the potential to increase significantly the level of reporting among large multinational and national companies from various sectors operating across the region.

Drivers from outside the region

Companies located in the six focus countries may be subject to a variety of pressures from stakeholders outside home country borders. Multinational companies headquartered in Europe or the U.S. may impose requirements on their local subsidiaries to comply with the sustainability reporting norms of the companies' headquarters. In addition, companies can face pressure to meet environmental and/or social performance and reporting standards before being allowed to access a certain market (such as the European Union) or before becoming a supplier to a certain company. Foreign investors may also demand sustainability information from the companies in which they are looking to invest. Finally, the desire (and realization) to be listed on a leading international stock exchange can have a big impact on the quality of a company's sustainability related disclosure.[14]

Drivers within the region

Within their own borders, companies face another set of factors. Public recognition in Asia plays an important role in encouraging sustainability reporting. Awards such as those of the Association of Chartered Certified Accountants (ACCA) in Malaysia and elsewhere can provide a powerful incentive for sustainability reporting.[15]

Table 1: Examples of Drivers Influencing Corporate Sustainability Reporting

Instrument	Influence	Examples
Mandatory (Legal)	Mandates some type of reporting, with or without enforcement	• **France** – The New Economic Regulations (Nouvelles Regulations Economiques) require all listed companies to report environmental and social information in their annual report. • **Norway** – The Norwegian Accounting Act (Regnskapsloven) requires several social, environmental and health and safety issues to be included in the annual directors' report.
Voluntary	Provides a framework to encourage environmental and social reporting	• **Global** – Association of Chartered Certified Accountants (ACCA) has published a "Guide to Best Practice in Environmental, Social and Sustainability Reporting." • **Japan** – Environmental Reporting Guidelines issued by the Ministry of the Environment.

Source: KPMG and United Nations Environment Programme [13]

**For an in-depth survey of the variety of drivers used in various countries, we recommend consulting the 2006 UNEP/KPMG report "Carrots and Sticks for Starters."*

However, cultural factors can also discourage reporting, as inside information channels are the norm in many Asian cultures. The work of international institutions, such as IFC and the World Bank, has also had an impact on sustainability reporting in certain countries. For example, IFC helped Manila Water in the Philippines prepare the country's first GRI compliant sustainability report, which set an example for other companies in the country.[16] Trends and local momentum can also play a role, as companies aim to keep up with what their competitors are doing.

Company specific drivers

A company's likelihood or ability to report sustainability information is influenced by its sector, structure, and management attitudes. Companies in sectors such as oil and gas, chemicals and steel, are likely to have internal management systems in place to manage their high environmental impacts. They are therefore already generating sustainability information that could be reported publicly. The structure or history of a company may influence its reporting tendencies. Many companies in the six focus countries are either partially state owned or are relatively recent privatizations. In either case, they may have a slow uptake of public reporting practices. Many companies in the region are also currently or formerly majority family owned, often with large executive boards dominated by family members and friends. Such structures are rarely conducive to public reporting about performance; in fact they are more likely to have strong internal barriers to increasing public disclosure.[17]

Studies also demonstrate the importance of the business case in encouraging companies to report sustainability information to the public. For example, a 2004 study by the Malaysian Chapter of the Association of Chartered Certified Accountants (ACCA) looked at the sustainability reporting of all the companies listed on the Bursa Malaysia (Malaysian stock exchange). The main reasons cited for company interest in reporting on environmental and social issues were "business case" issues such as enhancing reputation, brand and shareholder value, as well as reducing risk, and being recognized as an employer of choice.[18] As this study was conducted prior to recent regulatory changes in Malaysia toward mandatory reporting, it provides an interesting insight into local corporate thinking on sustainability reporting. Many companies may also report for the internal benefits that reporting brings in terms of creating more coherent internal strategies and data collection systems.[19]

Country specific drivers*

While there are overall sustainability reporting practices common to the region, mandatory requirements, monitoring institutes, support organizations, and market demand driving sustainability reporting is different in each country (Table 2). They may not apply to or reach all companies, or they may not be sufficiently prescriptive to have a real impact on reporting quality. Mandatory drivers will establish a minimum requirement, but companies may be encouraged to report beyond what is required for business reasons such as investor demands and reputation. In fact our research suggests that these are ultimately the most important drivers for better quality sustainability reporting, in particular for local companies that aim to compete globally.

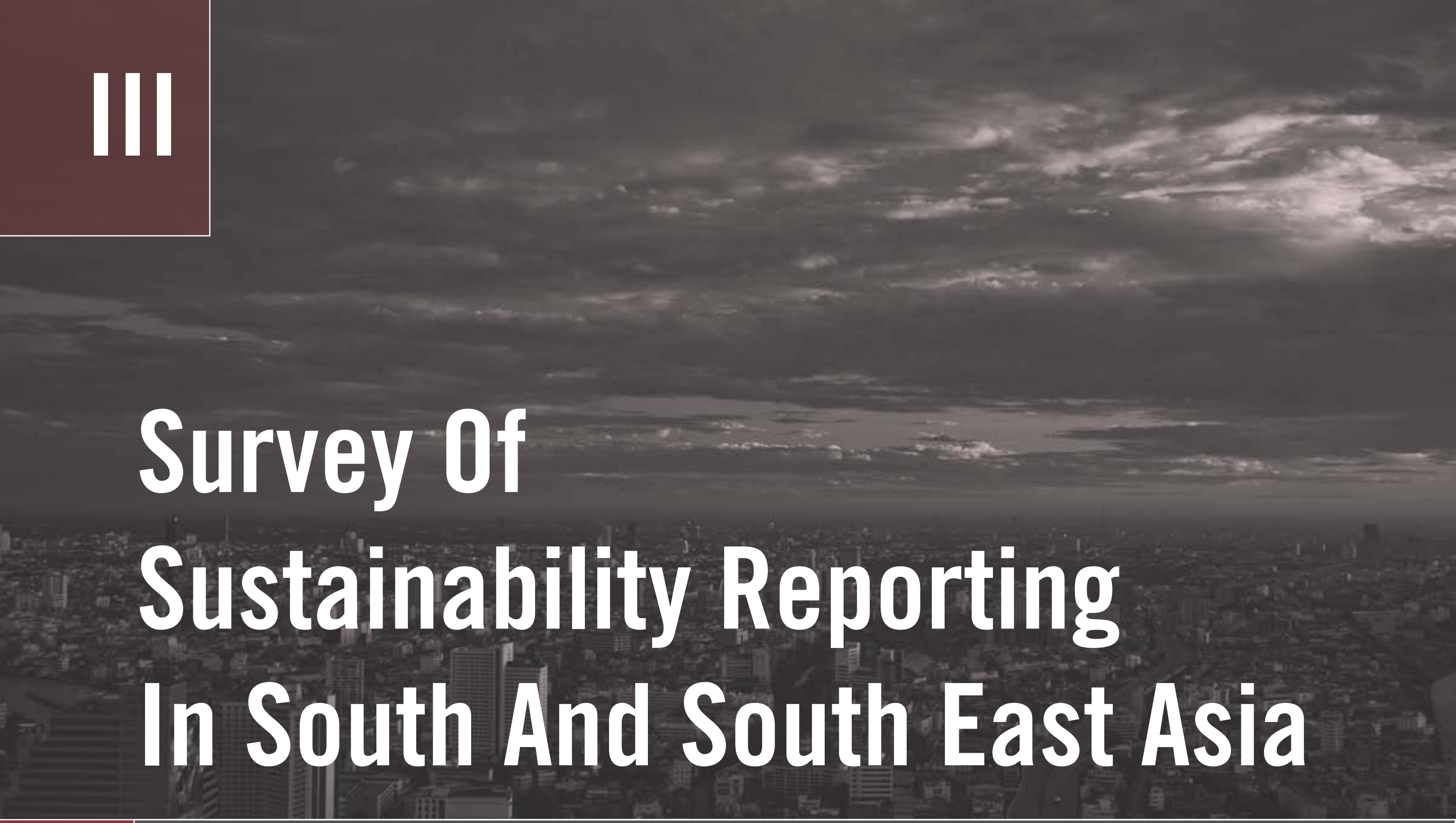
Table 2: Drivers that mandate or encourage public sustainability reporting

Country	Mandatory Requirement	Market Demand	Monitoring Institute	Support Organizations
India	• The corporate governance code (2007) mandates listed companies to disclose environmental and social information in the Director's Report or the Management Discussion and Analysis section of the annual report. • The Companies Act (section 217) requires companies to report on energy conservation (measures taken, metrics, and results) in the Board of Directors' report.	• Standard and Poor's ESG India Index • SRI mutual funds (ABN AMRO). • Local/Foreign investors with a socially responsible investment mandate.	• Institute of Chartered Accountants of India (ICAI) gives out annual "Awards for Excellence in Financial Reporting," which includes criteria for environmental and social reporting.	• ICAI handbook on sustainability reporting, available for sale to members. • The Confederation of Indian Industry (CII) has established the CII-ITC Centre of Excellence for Sustainable Development, as well as a Centre on Sustainability Reporting that assists companies to initiate or improve their environmental and social reporting. • Accounting/Consulting firms.

*See Appendix 1 for more details on country specific drivers of sustainability reporting.

Table 2: Drivers that mandate or encourage public sustainability reporting *(continued)*

Country	Mandatory Requirement	Market Demand	Monitoring Institute	Support Organizations
Indonesia	• Law No.40/2007 (Limited Liability Company Law—Article 74—passed in July 2007) with a focus on the extractive industries, will mandate a yet to be finalized level of corporate spending and reporting on environmental and social programs. • Babepam (the national securities regulator) requires listed companies to report on material environmental risks, such as "access to raw materials."	• Kehati Foundation green fund. • Local/Foreign investors with a socially responsible investment mandate.	• Indonesian Institute of Accountants - Management Accountants Compartment (IAI-KAM) has Sustainability Reporting Awards.	• The National Center for Sustainability Reporting (NCSR) supports and promotes sustainability reporting. • The Forum for Corporate Governance in Indonesia (FCGI), offers workshops and seminars on sustainability reporting.
Malaysia	• The Malaysian stock exchange requires all listed companies to publicly report on their environmental and social performance.	• OWW Responsibility Malaysia SRI Index. • Local/Foreign investors with a socially responsible investment mandate.	• The Malaysian Association of Chartered Certified Accountants (ACCA) has a reporting award (ACCA Malaysia Environmental and Social Reporting Awards [ACCA MESRA]).	• The Malaysia Accounting Standard Board (MASB) encourages environmental reporting if it helps "users in making economic decisions."
Philippines	• The Philippine Securities and Exchange Commission (PSEC) requires public companies to make a statement regarding their compliance with environmental laws and regulations in their reporting.	• Local/Foreign investors with a socially responsible investment mandate.	• The Management Association of the Philippines recognizes "the best annual report" each year—that which displays transparency in reporting both financial and non-financial information.	• The Philippine Institute of Certified Public Accountants (PICPA) has established a special committee on "Sustainability Reporting and Assurance" which offers training in "triple bottom line" reporting and promotes the GRI.
Thailand	• The stock exchange's corporate governance code (2006), to which all listed companies must adhere, stipulates that the board of directors of each listed company should "set clear policies on environmental and social issues," which, once in place, should be disclosed publicly.	• Local/Foreign investors with a socially responsible investment mandate.	None.	None.
Vietnam	None.	• Local/Foreign investors with a socially responsible investment mandate.	None.	None.



III

Survey Of Sustainability Reporting In South And South East Asia

Methodology and Evaluation Criteria

Existing studies that look at corporate sustainability reporting focus mostly on companies based in developed markets.[20] Few studies examine sustainability reporting in emerging Asia, and virtually none cover smaller markets such as Vietnam.

WRI's approach was to focus on the ten largest listed companies (by market capitalization) in each focus country, examining 60 companies in total from a diverse range of sectors. Our choice was dictated by the fact that these firms, with their superior financial resources, are typically most able to bear the cost of collecting and reporting sustainability information, including potential communications, design and assurance costs. Moreover, they are highly visible companies, and as such are exposed to stakeholder pressure regarding their environmental and social performance.

Although the sample size of this survey is relatively small and therefore cannot be considered conclusive about the state of sustainability reporting in each country, it does provide useful insights into the type and quality of information currently being reported by the large companies in the region.

Good sustainability reporting from an investor's perspective is not about creating a high-end, public-relations style report. It is about offering insight into the company's competitive positioning in relation to the financial impacts of relevant sustainability trends.

From this perspective, in order to evaluate the quality of sustainability reporting by the region's largest companies, WRI developed a simple four point ranking scale of key criteria. These draw on the more complex principles of good sustainability reporting established by the Global Reporting Initiative (GRI) and SustainAbility.[21] Based on their performance against these criteria, each company's reporting was rated as non-existent, poor, average, or good. The definition of each ranking is described in Table 3. (Note: a company need not meet all criteria to be placed within a certain category.) The standard of 'good' reporting is intentionally high. Although many companies in any jurisdiction may have trouble reaching this standard, it is necessary to articulate best practices.

Examples of 'good' reporting in the survey

- **India** – The Steel Authority of India's performance indicators on greenhouse gas emissions, energy efficiency and intensity, and water use.
- **Indonesia** – Unilever Indonesia's data on environmental impacts such as water use, waste, energy use, and emissions.
- **Malaysia** – British American Tobacco (Malaysia's) environmental score card with indicators on materials, energy, water and biodiversity.
- **Thailand** – PTT Exploration and Production's performance indicators on emissions, water use and other environmental impacts.

Table 3: Four Point Criteria for Ranking Sustainability Reporting Quality*

Non-existent	Poor	Average	Good
• No mention of environmental or social issues.	• Focus on philanthropic or charitable activities. • No data or quantitative performance metrics.	• Description of commitment to sustainability in vague terms. • Coverage of more than one sustainability issue, though with no clear indication of which are the most important and why. • Description of sustainability related activities, with no context as to why these are important given company specific factors such as geographic location and sector. • Few data or metrics.	• Clear link between sustainability strategy and core business strategy. • Information is presented in the context of external trends. • Both negative and positive information is reported. • A time series of data (i.e. historical). • Link made between sustainability issues and financial performance. • Sustainability risks and opportunities are prioritized (in terms of impact), with more emphasis on the high impact and probability issues. • Data and performance metrics. • Forward looking. • Coverage of the company's entire value chain. • Time horizon longer than one year. • Sustainability information integrated into annual report.

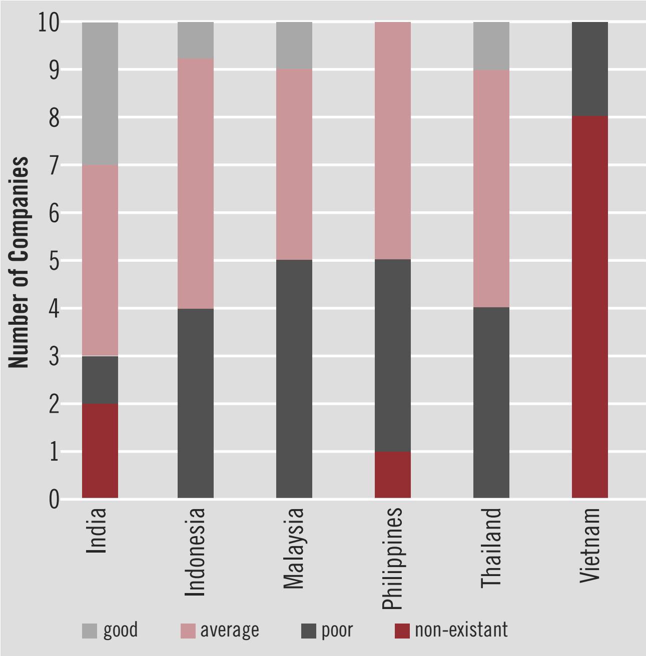
**Developed by the World Resources Institute's Markets and Enterprise program.*

Sustainability Reporting Levels: Key Findings

Half of the companies surveyed are based in three sectors: banking (20 percent), oil and gas (15 percent) and utilities (15 percent). The resource intensive sectors, such as oil and gas, tended to have better reporting, as did multinationals (although there are only three in the survey). Only 12 percent or seven of the sixty companies surveyed had reporting we evaluated to be good.

India has the greatest number of companies with disclosure that can be categorized as average or good (Figure 3). Many of the Indian companies surveyed are globally competitive firms. It is therefore likely that their reporting is also intended for stakeholders outside the country, and hence are more likely to adopt global best practices in sustainability reporting. Vietnamese companies had the least progressive disclosure, with many companies providing no information on their environmental or social impacts. The other countries fell between these extremes.

Figure 3: Summary results of quality of corporate sustainability disclosure by country, (2008)



Source: World Resources Institute

India: Sustainability Reporting Leader

As noted, India has by far the best corporate sustainability disclosure record out of the six focus countries. Moreover, much of it is integrated in company annual reports rather than in separate corporate social responsibility (CSR) reports. Most companies' disclosure programs primarily address social activities in the community and environmental compliance. The two companies with the best sustainability reporting in our view—Steel Authority of India and Reliance Industries—both produce separate sustainability reports with extensive lists of performance indicators.

Table 4: India's 10 largest companies by market capitalization (2008)

Company Name	Sector	Reporting quality
Reliance Industries	Oil and gas	Good
Oil and Natural Gas Corporation	Oil and gas	Average
State Bank of India	Banking	Non-existent
ICICI Bank	Banking	Average
Indian Oil Corporation	Oil and gas	Average
Steel Authority of India Limited	Materials	Good
Bharti Airtel	Telecommunications	Poor
Reliance Communications	Telecommunications	Non-existent
Tata Consultancy Services	Software and services	Average
Sterlite Industries	Metals and mining	Good

Source: Bombay Stock Exchange and National Stock Exchange of India

Indonesia: Multinational Leadership

In Indonesia, two companies received a good ranking, four an average ranking and four a poor ranking. Our survey found that most of the reporting was focused on community action and philanthropy, confirming findings by a local research that the focus of CSR programs in Indonesia is education, disaster relief, environment and public health.[22]

In our view the best example of reporting in Indonesia was by Unilever Indonesia, the subsidiary of a UK and Netherlands based large multinational. This company has a well developed sustainability program, including quantifiable data on environmental impacts such as water use, waste, energy use and emissions—still quite rare in the region. International Nickel, the other company with a separate CSR report, is also a subsidiary of a foreign company (Inco, of Canada). Its sustainability reporting does not provide metrics, but it does provide ample detail on the company's environmental and social programs. Companies that scored less well were mainly national corporations in the banking and telecommunications sector with less direct environmental impacts than the mining companies.

Table 5: Indonesia's 10 largest companies by market capitalization (2008)

Company Name	Sector	Reporting quality
Telekomunikasi Indonesia	Telecommunications	Poor
Bumi Resources	Energy and mining	Average
Astra International	Automotive	Average
Unilever Indonesia	Household products	Good
Bank Central Asia	Banking	Poor
Bank Mandiri	Banking	Poor
Bank Rakyat Indonesia	Banking	Average
Perusahaan Gas Negara	Oil and gas	Average
International Nickel (PT Inco)	Metals and mining	Good
Indosat Tbk PT	Telecommunications	Poor

Source: FTSE ASEAN 40 and the Standard & Poor's South East Asia 40

Malaysia: Community Focus

Only one Malaysian company surveyed merited a good rating and five were rated poor. Our results mirrored a 2004 study on all companies listed on the Bursa Malaysia which found that only ten percent of companies provided environmental information, while eight percent reported on social performance.[23] A 2008 study by the Malaysian stock exchange found that 67.5 percent of listed companies surveyed have average or below CSR practices, according to its own ranking scale.[24] Among the ten companies we surveyed, corporate environmental and/or social issues are mentioned to some degree, mostly via the company website.

Again, the company with the best corporate sustainability reporting, British American Tobacco (BAT) Malaysia, is a subsidiary of an international, UK-based firm. The fact that it operates in a high environmental impact sectors may also contribute to its superior disclosure.

We also noted that BAT Malaysia, the largest company in the country, is a member of the Dow Jones Sustainability Index and produces an externally verified social report—a rarity in the region. BAT also reports on a number of specific environmental and social metrics and is the only company surveyed in Malaysia to do so. With the exception of BAT, most of the sustainability reporting is focused on community involvement and/or philanthropy, and is limited to descriptions of actions, not specific metrics.

Table 6: Malaysia's 10 largest companies by market capitalization (2008)

Company Name	Sector	Reporting quality
British American Tobacco (Malaysia)	Tobacco	Good
MISC (F)	Oil and gas	Poor
Genting	Leisure and hospitality	Poor
Malayan Banking	Banking	Average
Sime Darby Bhd	Plantation, real estate, motors, industrial, energy and utilities	Average
IOI	Palm oil and real estate	Average
Resorts World	Leisure and hospitality	Poor
Telekom Malaysia	Telecommunications	Poor
Tenaga Nasional	Energy	Average
Bumiputra-Commerce Holdings	Banking	Poor

Source: FTSE ASEAN 40

The Philippines: Philanthropy First

Corporate sustainability disclosure by the ten largest companies in the Philippines can be categorized as reporting on community/philanthropy/foundation activities, compliance with applicable environmental laws or general program descriptions.

There was no example of quantitative sustainability reporting among the companies surveyed. However, there are other large companies in the Philippines producing GRI compliant sustainability reports, such as Manila Water.[25]

Table 7: Philippines' 10 largest companies by market capitalization (2008)

Company Name	Sector	Reporting quality
Phil Long Dist Tel	Telecommunications	Average
Ayala Corporation	Holding company (leisure, insurance and telecom)	Average
Bank of the Philippine Islands	Banking	Poor
Ayala Land Inc.	Real Estate	Average
Globe Telecom Inc.	Telecommunications	Average
PNOC Energy Development Corporation	Energy	Average
Metropolitan Bank & Trust Company	Banking	Poor
SM Investments Corp.	Real estate, retail and finance	Poor
SM Prime Holdings Inc.	Real estate	Non-existent
Manila Electric Company	Utilities	Average

Source: iPSE index, the Philippine Stock Exchange's composite index

Thailand: Oil and Gas Sector Leads

Three of the four Thai companies surveyed in the high environmental impact oil and gas sector scored an average rating while the fourth was rated good in its sustainability reporting. All four reported on health, safety and environment issues. PTT Exploration and Production, the highest rated, has produced a stand alone safety, security, health and environment report since 2002 and an additional separate social report since 2006. This suggests that companies in higher impact sectors tend to provide more environmental information.

In the other sectors featured, our survey confirmed the findings of a 2006 survey charting the reporting evolution of the 40 largest companies in Thailand from 1997-2001, which found that "human resources" and "community" disclosure dominated CSR disclosure.[26]

Table 8: Thailand's 10 largest companies by market capitalization (2008)

Company Name	Sector	Reporting quality
PTT	Oil and gas	Average
PTT Aromatics and Refining Public Company Limited	Oil and gas	Average
PTT Exploration & Production Public Company Limited	Oil and gas	Good
Thoresen Thai Agencies Public Company Limited	Transportation (shipping)	Poor
Thai Oil Public Company Limited	Oil and gas	Average
Banpu Public Company Limited	Energy and mining	Average
Siam Commercial Bank PCL	Banking	Poor
Bangkok Bank	Banking	Poor
Kasikornbank	Banking	Average
Advanced Info Services	Technology	Poor

Source: Stock Exchange of Thailand's SET 50 composite

Vietnam: Transparency Deficit

Vietnam is the least transparent market for environmental and social corporate reporting. This is a reflection of the fact that the country's stock exchange is a nascent market, and that many Vietnamese companies as yet have poor English language corporate reporting practices in general. Of the ten largest companies examined, only one, RangDong Light Source Company, reported any environmental information (a description of its "green products") and only one, Vietnam Dairy Products Company, produced any social information (nutritional information about its products).

Table 9: Vietnam's 10 largest companies by market capitalization (2008)

Company Name	Sector	Reporting quality
Thac Ba Hydropower JSC	Utilities	Non-existent
Can Don Hydropower Joint-Stock Company	Utilities	Non-existent
Vinh Son Song Hinh Hydropower JSC	Utilities	Non-existent
Pha Lai Thermal Power JSC	Utilities	Non-existent
The Corporation for Financing and Promoting Technology (FPT Corp.)	Technology	Non-existent
Refrigeration Electrical Engineering Corporation	Technology	Non-existent
Vietnam Dairy Products Joint-Stock Company	Consumer goods	Poor
Bien Hoa Sugar Joint Stock Company	Consumer goods	Non-existent
An Giang Fisheries Import and Export Joint-Stock Company	Consumer goods	Non-existent
RangDong Light Source and Vacuum Flask Joint Stock Company	Consumer goods	Poor

Source: CBU Index

IV

Findings And Conclusions

• Sustainability reporting in the six focus countries has improved in the past 5 years through the efforts of local governments, training and consulting organizations, national securities regulators, accounting professional associations and others. Mandatory drivers, such as stock exchange listing requirements, have provided a good first step. But these have not been sufficiently prescriptive to result in sustainability reporting that meets investor needs. The business reasons for sustainability reporting, such as reputation, supply chain or stakeholder demand, have helped drive better quality reporting.

• Nevertheless, the majority of sustainability information disclosed by the companies surveyed is of limited relevance to the investment community. The seven companies surveyed whose reporting was evaluated as "good" stand out because they disclose some environmental and social indicators that measure outputs and impacts such as GHG emissions. While such indicators are a good first step, they shed little light on companies' long-term viability in light of environmental trends. Furthermore, they are lagging indicators, inherently focused on a company's past performance. Overall, the reporting practices in the companies surveyed do not meet investors' needs for time horizons beyond 12 months, forward looking data sets, and explanations of the materiality of sustainability issues in business terms. The lack of financially relevant information means relevant sustainability risks or opportunities are, in effect, hidden from those who invest in a company's stock.

• In most cases, the content of the disclosure—largely focused on social and philanthropic activities, as well as environmental compliance—is likely to be more useful to stakeholder groups such as local communities and employees. Part of this is due to the fact that, guided by a collectivist and community oriented culture, Asian companies are stronger on the social aspects of the environmental, social and governance (ESG) agenda, as opposed to the environmental aspects, and therefore have more to report on the social aspects.

• The Indian companies examined are ahead of their peers. The majority produced sustainability reports that we evaluated as average or above-average and more relevant to investors. However, since the evaluation was focused on English language reporting, India, with English as an official business language, may also be at an advantage. At the opposite end of the spectrum, the Vietnamese companies examined had the least progressive disclosure, with limited or no mention of environmental or social factors. In between, Indonesian, Filipino, Thai, and Malaysian companies do report, but focus mostly on philanthropic and social activities and programs. Their reporting rarely discusses exposure to sustainability issues in terms of business risks and opportunities.

• Some patterns emerged among companies with above average reporting. In many cases, either the company operates in a sector with high environmental risks, such as oil and gas; or, the company is a subsidiary of a large multinational company headquartered in a developed country; or, the company has ambitions to compete globally; or may be responding to supply chain reporting requirements; or may be aimed at enhancing relationships with local communities. In these situations, external stakeholder demands have a high and positive impact on reporting quality.

• Each country, with the exception of Vietnam, has in place some mechanism—regulations, codes, awards, support organizations, or market initiatives—that encourages sustainability reporting. On one end of the regulatory spectrum, the Malaysian stock exchange requires all listed companies to report publicly on their environmental and social performance, though the form the reporting can take is flexible. On the other end, Vietnam has no regulations relating to corporate sustainability reporting, due in part to the fledgling nature of its stock exchanges. The local chapters of the accounting professional associations have taken a leading role in many countries, both by giving awards for quality corporate sustainability reporting, and providing advice and guidance for companies to improve their sustainability reporting.

• Although regulations can establish a minimum standard in these emerging Asian markets, they are often not sufficiently prescriptive to result in sustainability reporting that is useful for investors. Awards and guidance do help but only with companies who have already bought into the need to report. The most compelling reason for companies to report, and to report well, seems to be in response to external pressures—whether from stakeholders or to enhance reputation.

• There is a real risk for companies who do not report on environmental and social factors. Not formally reporting on sustainability factors can amplify the financial impact on a company's share price when environmental and social information is leaked to the public. When the market has no information about a company's environmental risks and is then presented with unexpected information about a chemical spill for example, the market tends to overreact. Increased transparency also attracts investment, especially from foreign investors who are reluctant to invest in a company whose risks are unclear. In the future, reporting sustainability information will become increasingly necessary for companies seeking to compete in the global marketplace.

• Investors and equity analysts in emerging Asia often work to obtain pertinent information on sustainability risks through non-public informal channels. This practice likely gives some investors a competitive advantage; however, it does little to help tip the scale toward mainstreaming corporate sustainability reporting in the region.

Next Steps

The next reports in this research series will provide guidance to investors on how to bridge the information and interpretation gap. Sector reports will identify sector specific indicators for companies that go beyond output measures and drive at a company's ability to succeed in the long-term given its environmental risk context. Our objective is to help investors understand how environmental factors can present financially material risks and opportunities.

Appendix I: Drivers For Sustainability Reporting In Focus Countries

India

Regulations and Codes

India has no mandatory environmental or social reporting requirement for public companies, but there are initiatives which encourage such disclosure. The Securities and Exchange Board of India (SEBI) does not make any mention of environmental or social reporting requirements in its "Disclosure and Investor Protection" guidelines (updated March 17, 2008).[27]

India's National Environmental Policy (NEP) 2006, scripted by the Ministry of Environment and Forests has recommended the use of "standardized environmental accounting practices and norms in preparation of statutory financial statements for large industrial enterprises."[28] To date, no such standards have been introduced.

In addition, there are several other laws that influence reporting. Under the Environment (Protection) Act of 1986, each organization covered by the law should submit an annual Environmental Audit Report to its local State Pollution Control Board (SPCB).[29] The environmental report covers items such as water and raw material consumption, and although it does not mandate reporting this information to the public, it forces companies to collect it. Similarly, the Indian Factories Act mandates social reporting on issues such as working hours for every factory to State governments, though not for public reporting.[30] The Companies Act (section 217) also requires companies to report on energy conservation (measures taken, metrics and results) in the Board of Directors Report.[31]

The latest corporate governance code (2007) for public sector companies requires them to make environmental and social disclosures in the directors' report or management discussion and analysis section.[32]

Awards and Guidance

There are several local organizations that are promoting sustainability reporting. The Institute of Chartered Accountants of India (ICAI) gives out annual "Awards for Excellence in Financial Reporting." The criteria for the award include criteria for environmental and social reporting.[33] In addition, ICAI has also published a handbook on sustainability reporting, which is available for sale to members.[34] The Confederation of Indian Industry (CII) has established the CII-ITC Centre of Excellence for Sustainable Development, as well as a Centre on Sustainability Reporting. This Centre assists companies to initiate or improve their environmental and social reporting.[35]

Market

There have been some recent developments in the Indian financial markets. Standard and Poor's (in partnership with the IFC) launched in January 2008, an investible ESG index, the first of its kind in the region.[36] The index is comprised of the top 50 sustainability performers, chosen from a universe of the 500 largest listed companies in India. The desire to be included on the index, both for reputation as well as for access to capital, should help spur more Indian companies to improve their environmental and social performance and reporting, though since it is relatively new, the index has not yet had a discernable impact.[37] The index should also help advance the idea that good environmental and social performance translates into good financial performance, and underscore the link between the two.

ABN AMRO launched the country's first socially responsible investment (SRI) mutual fund in 2007. The fund is structured as a three-year close ended equity fund with an automatic conversion to an open-ended scheme after the three years are over.[38] This fund also helps bring more visibility to firms' environmental and social performance.

Indonesia

Regulations and Codes

Indonesia has recently passed new laws related to corporate responsibility, despite protests from local companies.[39] This includes Article 74, passed in July 2007,[40] which focuses on the extractive industries. This law, which will mandate a certain level of corporate spending and reporting on environmental and social programs, is the first mandatory CSR law in the world.[41] There is still resistance to it among companies, business groups and even NGOs promoting CSR in the country.

In addition to this new CSR law, there are other legal drivers that encourage sustainability reporting. Indonesian companies are required to report about their sustainability activities to a variety of different bodies (varies depending on the sector), including the Directorate General of Taxation.[42] As the national securities regulator, Babepam is the relevant public reporting body for investors. It, in partnership with the local stock exchanges, determines what information traded companies must report publicly. In Bapepam's "Reporting Requirements for Issuers and Public Companies—Annual Reports," the sole reference which relates to the environment is the requirement for companies to report on material risks, such as "access to raw materials."[43]

Indonesia began an innovative public environmental reporting program in 1995: the Program for Pollution Control Evaluation and Rating (PROPER).[44] The first phase of this voluntary program (though companies were asked to participate by the regulators) started with 187 companies, mainly large water polluters but more companies joined over the years. The program monitored and rated regulatory compliance level and results were published in the media.[45] The program had a positive impact on corporate environmental behavior and reporting in Indonesia.[46]

Awards and Guidance

There are several active organizations offering support services and encouragement. Beginning in 2003, the Indonesian Institute of Accountants - Management Accountants Compartment (IAI-KAM) has been active in promoting ES corporate reporting, with a focus on transparency and best practices.[47] In 2005, it launched the Sustainability Reporting Award, which rewards companies for the best sustainability reporting. It is also a founder of the National Center for Sustainability Reporting (NCSR), whose main purpose is to support and promote sustainability reporting in Indonesia.[48] The NCSR's activities include translating the GRI G3 Guidelines to Indonesian.[49]

Another active local organization is the Forum for Corporate Governance in Indonesia (FCGI), which also is also working towards improving corporate sustainability and responsibility (in addition to corporate governance) practices in Indonesia. It offers an information depository, covering relevant articles in the media, as well as its own publications. Its most influential activity in relation to reporting is its workshops and seminars. In addition to other sustainability related topics, it offers training workshops that enable participants to become a "Certified Sustainability Reporting Specialist (CSRS)" or a "Certified Sustainability Reporting Assurer (CSRA)."[50]

Malaysia

Regulations and Codes

Starting in September 2006, the Malaysian stock exchange introduced new requirements for all listed companies to publicly report on their environmental and social performance.[51] However the requirements are not the same for every company. Companies have the freedom to choose how much or how little they report, and what to report, as long as there is mention of the four areas of focus: environment, workplace, community and marketplace.[52] This flexible approach makes it easier for firms to comply, but, at least in the short-term, does not necessarily improve the overall utility of the information reported. However, it is part of a strong initiative by the stock exchange to change the way firms in the country think about CSR and the need to move away from philanthropy towards a more strategic approach.

In addition, the Malaysia Accounting Standard Board (MASB) has a provision which encourages environmental reporting. In paragraph 10 of MASB 1, it encourages companies to produce "environmental reports and value added statements" if it helps "users in making economic decisions."[53]

Awards and Guidance

The Malaysian Association of Chartered Certified Accountants (ACCA) launched a reporting award (ACCA Malaysia Environmental and Social Reporting Awards [ACCA MESRA]) in 2004.[54]

Market

A 2004 study by the Malaysian Chapter of the Association of Chartered Certified Accountants (ACCA) looked at the CSR reporting of all the companies listed on the Bursa Malaysia. The main reasons cited for company interest in reporting on environmental and social issues were "business case" issues such as enhancing reputation, brand and shareholder value, as well as reducing risk and being recognized as an employer of choice.[55] This study was conducted prior to recent regulatory changes in Malaysia towards mandatory reporting, so it provides an interesting insight into local corporate thinking on sustainability issues. It shows that although brand enhancement was the most often cited motive, strategic reasons such as risk mitigation were also important.

In November 2006, the OWW Responsibility Malaysia SRI Index was launched. Constituents are chosen from the top 100 companies (the scope will widen as the new law on reporting improves overall reporting) on the Malaysian stock exchange, providing an incentive for these companies to report the types of environmental and social information that is needed to evaluate whether a company should be included on such an index.[56] It also raises the profile of the benefits of paying attention to environmental and social aspects as this index seems to generally outperform the market composite index.[57]

Philippines

Regulations and Codes

The Philippines has had recent developments in corporate sustainability reporting, although legal corporate reporting requirements are very minimal. In August 2007, the Philippine Board of Investment adopted a new CSR policy that is mandatory for companies that registered under the 2007 Investment Priorities Plan. This policy requires registered companies to implement "CSR" programs to ensure that the fiscal incentives granted to them also benefit local communities.[58] This may have a positive influence on encouraging more reporting of social activities. The Philippine Securities and Exchange Commission (PSEC) is the main supervisory body for public corporations. It also governs the rules and regulations of the Philippine Stock Exchange (PSE). The PSEC requires public companies to make a statement regarding their compliance with environmental laws and regulations in their reporting.[59]

Awards and Guidance

The Philippine Institute of Certified Public Accountants (PICPA) has been active in encouraging sustainability reporting and has established a special committee on "Sustainability Reporting and Assurance."[60] The committee's activities include training in environmental accounting (for internal reporting) and "triple bottom line" reporting and trying to promote the GRI.[61] The Philippines is also in the process of converging its accounting standards with international accounting standards issued by the International Accounting Standards Board (IASB).

In terms of other initiatives that promote sustainability reporting, the Management Association of the Philippines recognizes "the best annual report" each year, which display transparency in reporting both financial and non-financial information.[62]

Thailand

Regulations and Codes

Thailand does not have any regulations requiring companies to report on their environmental or social performance. The Stock Exchange of Thailand's guidelines on disclosure for listed companies do not have any specific environmental or social reporting requirements; although, it does mention the environment briefly. The "Listed Companies Handbook" states that, in order to stay listed on the stock exchange, companies must meet certain requirements, one of which is that companies shall "establish an effective internal control system, which includes appropriate environmental controls."[63] However, this statement does not hold companies to any standard of external disclosure about such controls.

In the updated 2006 corporate governance code (which all listed companies must adhere to), there is mention of environmental and social disclosure. It stipulates that the board of directors should "set clear policies on environmental and social issues", which, once in place, should be disclosed.[64] There is no requirement that supports further sustainability reporting beyond disclosure of policies.

Awards and Guidance

Unlike other countries in the region, it is not evident that there are initiatives to promote environmental and social public disclosure by influential organizations such as the Federation of Accounting Professions (FAP). However there is a general lack of information provided in English by these organizations themselves, so it is difficult to draw concrete conclusions about the full scope of their activities. Thailand has been focused on building capacity in corporate governance over the past decade since the country's financial crisis, which has perhaps taken some attention away from the need to build capacity in other types of non-financial reporting.

Vietnam

Regulations and Codes

There are no relevant laws in Vietnam that compel companies to report on environmental and social issues. The local stock exchange only provides information regarding its regulations for listed companies in Vietnamese.[65] Indeed, information regarding the relevant activities of key reporting players, such as the Vietnam Accounting & Auditing Association (VAA), is difficult to find.

Awards and Guidance

There is no evidence of organizations working to improve voluntary sustainability reporting.

Endnotes

[1] The Global Reporting Initiative (GRI) pioneered the development of a widely used sustainability reporting framework. For more information see www.globalreporting.org
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