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Impact of Sustainability Reporting on Firm Performance of Companies in India

Priyanka Garg*

Abstract

The core idea of sustainability is that current decisions should not impair the prospects for maintaining or improving future living standards (Repetto, 1986). GRI (2006) defined sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their needs". The challenges of sustainable development are many and it is widely accepted that organisations have not only a responsibility but also a great ability to exert positive change on the state of the world's economy, and environmental and social conditions. Further, the issue of environmental sustainability is intertwined with that of poverty and inequity. The causative relationship runs both ways- increased poverty and loss of rural livelihoods accelerates environmental degradation as displaced people put greater pressure on forests, fisheries, and marginal lands. The present study has made an attempt to investigate the relationship between sustainability reporting and financial performance of companies in India. Data have been collected with the help of annual reports of selected companies and Prowess Database. Collected data have been analysed with the help of SPSS 16.0. The study shows that sustainability reporting practices of companies has improved over the time. Further, research reveals that sustainability reporting practices of a firm impact its performance negatively in short run while positively in long run.

Keyword: Sustainable Development, Sustainability Reporting, Firm Performance

Introduction

The search for competitive advantage is a priority for firms that operate in a complex global environment, to ensure the capacity to create value in the long-term. Moreover, companies are becoming aware that they can contribute to sustainable development by reorienting their operations and processes. This position assumes that the firm obtains economic results that are sufficient to enable the business's viability, since the company's first concern must be its survival. The current opinion holds that long-term profits for shareholders are ensured by means of corporate management applying both economic and sustainability criteria (Michael & Gross, 2004). Awareness and interest in these issues has led to the emergence of the concept of sustainability (Lopez, Garcia & Rodriguez, 2007).

Everyone knows the ways to sustainable development but is not quite sure of how to actually do that. Generally each generation is better off than the last one. Even after being better off no one is sure that one can continue with this progression and how it can be actually ensured. No doubt that present generation is better off than our previous generations technology-wise as well as in many other aspects but we have used more non-renewable natural resources for our demands than our previous generations have used. This way current generation has degraded the environment more than previous generations which might lead to end of these resources one day. So, to not let the resources go to an end, one should take care and should use them in limited amount so that to conserve these resources for coming generations as well as to protect the environment.

According to Andrew Hewett, Global Sourcing Development Manager, "If we do not focus on sustainability, then we will not be able to sell products in the future. We will not have a supply or customers may not buy from us." So to sustain in the marketplace, companies will have to look at their environmental sustainability also along with the corporate sustainability (in terms of profitability). And to look at that, companies are reporting on sustainability. Most of these companies are reporting on guidelines provided by Global Reporting Initiative (GRI). The guideline states that "The GRI Reporting Framework is intended to serve as a generally

* Research Scholar, UBS, Panjab University, UBS, Panjab University, Punjab, India. E-mail: priyanka7june@gmail.com

accepted framework for reporting on an organisation's economic, environmental and social performance. It is designed for use by organisations of any size, sector or location. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organisation's sustainability performance."

The goal of sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs. The World Business Council for Sustainable Development (2003) defines sustainability reporting as "public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions".

GRI (2006) defines sustainability reporting as "the practice of measuring, disclosing, and being accountable for organisational performance while working towards the goal of sustainable development". In essence, sustainability reporting is to disclose the organisation's commitment and achievement towards all aspects of sustainability, from both internal and external stakeholders' perspectives.

Sustainability reporting is a form of value reporting where an organisation publicly communicates its economic, environmental and social performance. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organisation, including both positive and negative contributions. However, these purposes consider neither the time dimension, nor the interactions among different sustainability dimensions (Lozano, 2011).

Reporting on sustainability, in any form, is deeply rooted in the Indian culture. From the inception of business in India, the concept of sustainability responsibility of business was reviewed from the religious or moral aspect rather than a philosophy of management. Reporting on social, economic, environmental, and other related issues has evolved time-to-time in Indian history from vedic era to modern day business.

As of today, companies in India have started reporting on sustainability. Sustainability reports are voluntarily released by companies that provide additional information to the stakeholders regarding the impact their activities have on the environment and society. Most of the companies in India are following the GRI guidelines to prepare their sustainability reports.

Companies like Ambuja Cements, Indian Oil, Infosys Technologies India, ITC, Larsen and Toubro (L&T), Oil and Natural Gas Corporation (ONGC), Reliance Industries Limited, Tata Consultancy Services (TCS), Tata Motors, Wipro Ltd are reporting on sustainability concerns in their reports and have even registered their sustainability reports on GRI.

Review of Literature

A survey of existing literature on the impact of sustainability reporting on the firm's performance reveals that the link between environmental and economic performance has been widely debated in the literature for the last fifteen to twenty years.

There are number of studies which prove that there is a positive impact of sustainability reporting on performance variables. Grinyer, Yasai-Ardekani and Al-Bazzaz (1980) analysed 48 large United Kingdom companies to test the linkages of strategy, structure, the environment, and financial performance and found a significantly positive relationship of financial performance with environment. Feldman, Soyka and Ameer (1996) too found a significantly positive relationship between environmental reporting and market performance of US companies. Griffin and Mahon (1997) conducted a research concerning the relationship between corporate social performance and corporate financial performance taking a sample of seven companies from chemical industry. The results revealed that there is no company with high corporate social performance which shows low financial performance.

Wagner and Schaltegger (2004) discussed the relationship between environmental and economic performance and the influence of corporate environmental strategy choice on this relationship. The study found positive relationship of economic and environmental performance for firms with shareholder value-oriented strategies by using the sample of 1000 U.K. firms and 2000 Germany firms. Similarly, Wagner (2005) too found a positive link between environmental and economic performance in the European paper manufacturing industry. Vijfvinkel, Bouman and Hessels (2011) focused on the relationship between environmental sustainability and the financial performance of SMEs in terms of profit and revenue development by using a unique dataset of 337 Dutch and Chinese firms. The results suggested a significant positive association between environmental sustainability and firm performance.

Babalola and Abiodun (2012) concluded that variations in selected firms' performance were caused by changes in CSR reporting after analyzing ten firms in Nigeria for over 1999-2008. Sun (2012) revealed a significant and positive impact of CSR on corporate financial performance for 1999-2009. In addition, firms large in size and low on leverage demonstrated higher CSR performance. Saxena and Kohli (2012) examined the impact of CSR on financial performance in Indian banking sector from 2007 through 2010 to reveal a weak correlation between the two. Siew, Balatbat, and Carmichael (2013) examined the impact of reporting of environmental, social and governance (ESG) activities on financial performance of construction companies listed on Australian Stock Exchange (ASX, 2012) to reveal that such companies outperform those which do not report, although the association is weak. Isa (2014) assessed sustainability reporting practices among food and beverage firms in Nigeria and found that larger firms have reported lesser than the smaller firms.

There is also contrary evidence showing no or negative impact of sustainability reporting on profitability. One of the studies is by Aupperle, Carroll and Hatfield (1985) which analysed the relationship between corporate social responsibility and profitability of the companies listed in Forbes 1981 Annual Directory. The results of the study did not find any relationship between social responsibility and profitability. Murray, Sinclair, Power and Gray (2006) studied the relationship between social and environmental performance disclosure and financial market performance of companies in UK and found no significant relationship between environmental reporting and market performance. But Lopez *et al.* (2007) found negative impact of sustainability on profitability in short term but a positive impact in long-term. Makni, Francoeur, and Bellavance (2009) found no significant relationship between firm's composite measure of CSP and FP, for 179 publicly held Canadian firms. However, a robust significant negative impact of the environmental dimension of CSP was found on all measures of FP.

On the basis of the available literature, it is amply clear that research on sustainability reporting has as yet not picked up in India. The present study on sustainability will, thus, fill the research gap.

Objectives of the Study

The core objective of the present study is to investigate the impact of the sustainability reporting on performance indicators in Indian companies. The study aims to fulfill some additional objectives which are as follows:

1. To measure the sustainability reporting score for sample companies through the indicators provided by GRI and compare them over the period of study.
2. To study the relationship between sustainability reporting practices and company performance.
3. To propose suggestions with regards to disclosure imperative of sustainability reporting.

Research Methodology

Following methodology has been used to fulfill the objectives of the present study:

Scope of the Study

The scope of the study is limited to all the companies that are included in the BSE GREENEX index of Bombay Stock Exchange for five financial years from FY 2008-2012 i.e. Sustainability practices of sample companies would be analysed for the period of 5 years. The time period is limited to five years due to non-availability of sustainability reports before 2008.

Sample Selection

BSE GREENEX Index of Bombay Stock Exchange was taken as sample for the present study as it include companies performing better CSR practices and following environmental rules. BSE GREENEX consists of 20 companies. All the banking and financial companies were excluded along with service sector companies. The companies incorporated after 2006 were also deleted. In the last stage, those companies which had financial year other than ending March 31 have been removed, thus, resulting in a final sample size of eleven companies which accounts for 55 percent of the BSE GREENEX Index. In all there were 55 company-year observations over the five year study period. For these companies, the required information for the years under study was then collected.

Data Collection for the Study

The data for the study have been collected through secondary sources. Sustainability score has been determined with the help of annual reports of the sample companies whereas financial data were gathered from corporate database PROWESS maintained by the Centre for Monitoring Indian Economy (CMIE). Sustainability score of the companies have been calculated by taking GRI guidelines as a base which consists of total 121 indicators.

Key Variables

Authors have identified and defined variables differently. Taking into account the applicability of the identified variables in the Indian context, the variables used in the study are as follows:

1. Sustainability Reporting Score

Sustainability reporting score of companies have been determined with the help of GRI guidelines which consists of total 121 indicators. These indicators consist of economic indicators, environment, and social (society related, employment related, and product related) indicators. For example, policy of spending on locally-based suppliers at locations of operation, involvement of firms in charitable projects through donations or other activities, disclosure of non-renewable natural resources used by firm, etc. Sustainability reporting score for all the years (2008 through 2012) have been determined using the same indicators. Symbol used for the sustainability reporting score is *SUST*.

2. Return on Assets (ROA)

Return on assets is used in finance as a measure of the returns that a company is realising from its capital employed. It is commonly used as a measure for comparing the performance between businesses and for assessing whether a business generates enough returns to pay for its cost of capital. Consistent with prior research (Griffin & Mahon, 1997; Lopez *et al.*, 2007), ROA has been measured as:

ROA = (Profit before tax / Total assets) * 100

3. Tobin's Q

It is an accounting variable and depicts the value added by the management. Thus, it is a performance variable in terms of company valuation (Garg, 2007). Tobin's Q is defined as the ratio of market value of the company to the book value of total assets, where the market value of the company is measured by the sum of the market value of equity and the book value of total liabilities. Formula for Tobin's Q is as follows:

Tobin's q = [(Market Value of common stock + Book Value of preference stock + Book Value of borrowings + Book Value of Current liabilities) / (Fixed Assets + Investment + Current Assets)] at the year end.

Tools for Analysis

The following statistical tools were used to analyse the data collected on the variables under the study:

(a) Paired t-test

(b) Regression Analysis

The data was analysed using Statistical Package for the Social Sciences Version 16 (SPSS 16.0).

Findings of the Study

Findings of the present study have been divided into the following sections:

1. Sustainability Reporting Practices

   (a) Company-wise analysis of selected companies in India

   (b) Sustainability reporting practices of companies over the period of study

2. Impact of the sustainability reporting practices on performance variables

   (a) In shot-run

   (b) In long-run

Sustainability Reporting Practices

Sustainability reporting practices of selected companies in India have been analysed individually and over the period of study as well.

Table 1: Sustainability Reporting Practices of Selected Companies in India

Company Name	*Number of parameters reported*				
	SUST2008	*SUST2009*	*SUST2010*	*SUST2011*	*SUST2012*
Bharat Heavy Electricals Ltd.	32	32	34	35	34
Cipla Ltd.	18	18	19	18	19
D L F Ltd.	26	27	25	24	23
G A I L (India) Ltd.	33	39	39	41	41
Larsen & Toubro Ltd.	53	55	55	54	55
Lupin Ltd.	27	30	30	31	31
Reliance Infrastructure Ltd.	25	27	27	27	27
Sterlite Industries (India) Ltd.	32	32	34	34	36
Tata Motors Ltd.	34	39	39	40	40
Tata Power Co. Ltd.	23	25	25	25	27
Tata Steel Ltd.	41	41	41	46	46

Note: $SUST_{2008}$, $SUST_{2009}$, $SUST_{2010}$, $SUST_{2011}$ and $SUST_{2012}$ refers to sustainability reporting score for year 2008, 2009, 2010, 2011, and 2012 respectively.

1. Company-Wise Analysis of Selected Companies in India

Annual reports of selected companies have been thoroughly analysed to check number of parameters reported by them. GRI guidelines consisting of 121 elements/parameters were taken as base. Table 1 shows that Larsen and Toubro Ltd. have been reporting the maximum number of parameters in all the five years, followed by Tata Steel Ltd. and Tata Motors Ltd. Further it reveals that Cipla Ltd. has reported least number of parameters in all the five years i.e. from 2008 to 2012.

2. Sustainability Reporting Practices of Companies over the Period of Study

Sustainability reporting score of selected companies have been analysed over the period of study as well. Paired t-test has been applied to compare the sustainability reporting practices of sample companies for year 2008 (***SUST***$_{2008}$) with year 2012 (***SUST***$_{2012}$) and results are shown in Table 2. According to the results of paired t-test, it is clear that sustainability reporting practices of sample companies has improved over the study period as t-statistic (3.469) is positive and highly significant. Sustainability reporting score in Table 1 also support the results of paired t-test that sustainability reporting score of all the sample companies, except DLF Ltd., has improved over the study period.

Table 2: Paired t-Test Results for Change in Sustainability Reporting (FY 2008 vis-à-vis FY 2012)

Variable	*Mean*	*Standard Deviation*	*t-statistic*	*p-value*
Sustainability reporting score ($SUST_{2012}$ - $SUST_{2008}$)	3.182	2.892	3.469	0.004***

$SUST_{2008}$ and $SUST_{2012}$ - Sustainability reporting score of companies for year 2008 and 2012 respectively

*** indicates level of significance at 1 percent. The test of significance is two-tailed.

The results are obtained using SPSS 16.0.

Impact of Sustainability Reporting Practices on Performance Variables

Multiple regression analysis was applied to determine the impact of the trend of sustainability reporting practices on performance of companies. Impact of reporting practices for the current year (2012) and previous years (2008, 2009, 2010, and 2011) on performance of current year (2012) has been checked so as to compare the impact of such practices on corporate performance in short-run *vis-à-vis* long-run. Separate regression models were used for both the performance variables i.e., for Tobin's Q, ROA (Return on Assets). Table 3 and Table 4 report the regression results with firm performance as the dependent

Table 3: Impact of sustainability reporting practices on performance variables (Regression Results using Tobin's Q as performance variable)

Model		*Unstandardised Coefficients*		*Standardised Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	2.249	1.294		1.737	.143
	SUST2008	0.121	.195	-1.313	-.621	.562
	SUST2009	0.045	.360	.512	.125	.905
	SUST2010	0.161	.475	1.820	.339	.748
	SUST2011	-0.082	.392	-.993	-.210	.842
	SUST2012	-0.024	.394	-.290	-.061	.954

***SUST**$_{2008}$*, ***SUST**$_{2009}$*, ***SUST**$_{2010}$*, ***SUST**$_{2011}$* and ***SUST**$_{2012}$* refers to sustainability reporting score for year 2008, 2009, 2010, 2011, and 2012 respectively.

Dependent Variable is ***Tobin Q***. Data for year 2012 has been considered for Tobin Q.

Table 4: Impact of Sustainability Reporting Practices on Performance Variables (Regression Results using ROA as performance variable)

Model		*Unstandardised Coefficients*		*Standardised Coefficients*	*t*	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	0.223	.207		1.074	.332
	SUST2008	0.108	.031	-3.582	-3.457	.018
	SUST2009	0.071	.058	-2.478	-1.240	.070
	SUST2010	0.206	.076	7.131	2.710	.042
	SUST2011	0.012	.063	.435	.188	.859
	SUST2012	-0.033	.063	-1.206	-.518	.627

***SUST**$_{2008}$*, ***SUST**$_{2009}$*, ***SUST**$_{2010}$*, ***SUST**$_{2011}$* and ***SUST**$_{2012}$* refers to sustainability reporting score for year 2008, 2009, 2010, 2011, and 2012 respectively.

Dependent Variable is ***ROA***. Data for year 2012 has been considered for ROA.

variable and sustainability reporting score for the five years as independent variables. Since, the study made no predictions about the expected sign of all the variables significance tests carried out was two-tailed. To check in short run as well as in long run, sustainability reporting score of all the years was considered whereas performance variables i.e., Tobin's Q and ROA were taken for the year 2012 only. Table 3 reports the results of regression analysis taken Tobin's Q as dependent variable whereas Table 4 reports the results for ROA as dependent variable.

It can be clearly seen from Table 3 that sustainability reporting scores for the years 2008, 2009, and 2010 have a positive impact on Tobin's Q whereas score for years 2011, and 2012 impact Tobin's Q negatively. It reveals that sustainability reporting practices of a company impact its performance negatively in short run as sustainability reporting for year 2011 (previous year) and 2012 (current year) impact firm performance of current year negatively. Further, reporting scores of year 2008, 2009, and 2010 impact the performance of firm positively in 2012 which conclude that sustainability reporting scores of previous years impact the firm performance positively, i.e., sustainability reporting practices of companies impact the firm performance positively in long-run. Whether it is positively associated or negatively, it is highly insignificant for all the independent variable taken into account. Previous studies (for example, Lopez *et al.*, 2007; Lin, Yang, and Liou, 2009) also support the above results that sustainability reporting practices impact the performance of companies negatively in short-run and positively in long-run.

Table 4 reports the result of regression analysis taking ROA as dependent variable. It also proves that sustainability reporting practices impacts the performance negatively in short run while positively in long run.

Sustainability reporting scores for the years 2008, 2009, 2010, and 2011 positively impact ROA whereas score for the year 2012 is negatively associated with ROA. Overall, the scores of the years 2008, 2009, and 2010 impact performance (ROA) significantly and positively whereas scores for later years i.e., 2011, and 2012 are highly insignificant with ROA.

Discussion

The analysis of this paper shows that sustainability reporting practices of the firms have improved over the study period. Similar results have been found in a study of UK companies by Campbell (2004). Chang, Kuo, and Chen (2011) in a study of selected companies reported a trend of continuous improvement in sustainability reporting practices of companies in three years (2003-2005). Further, paper has analysed and concluded that sustainability reporting practices of companies impact the performance of a company positively in long run and negatively in short run. Lopez *et al.* (2007) reported the similar results in a study of DJSI (Dow Jones Sustainability Index) firms for the years 1998-2004. Similar results have been found in a study of companies listed in Taiwan by Yang, Lin and Chang (2010).

Conclusion

This study aims to determine the pattern of sustainability reporting practices of selected companies in India. The results of the study confirm that sustainability reporting practices of companies have improved over study period of five years. Further, the study intends to test the impact sustainability reporting practices of any firm have on its performance. The results reveal that sustainability reporting practices of a firm impact its performance negatively in short run while positively in long run.

Limitations and Directions for Future Research

Despite its valuable findings and implications, this study contains some limitations. One of the limitations is that the research could not be made extensively due to time constraints. The study is limited to only companies which are a part of BSE GREENEX index. Therefore, researchers should be cautious while generalising the findings of the study. Further, time period was only five years. It would have been a better study if time period was more. Industry-wise comparison for reporting practices could also be performed. More variable could be taken into account.

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