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New Developments in Environmental, Social, And Governance (ESG): A Corporate Disclosure About India's Top ESG Scorer

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Abstract

Nowadays, companies across all assiduity around the world face the challenges of extraordinary dislocation due to climate changes and other social dislocation. It is the responsibility of standard setters and controllers of the fiscal sector to constantly encourage industries to follow and respond rather of ignoring the dislocation. The present study is an independent and methodical analysis of reporting and evaluation of ESG factors and exposure performance of selected Indian companies. This study investigates how top ESG scorer declared Environmental, Social and Governance factors and BRR in their sustainability report. Environmental, Social and Governance disclosure is one of the main arising corporate disclosures aspects. The other ideal of the study is to produce a mindfulness so that appreciation for ESG becomes communicable and becomes hardwired in the organizational foundation. It will further enable gap analysis and drive companies to achieve leadership status within their assiduity and achieve better performance. The corporate sector and the investment community are crucial players towards achieving sustainable development. It ‘ll also give investors a ready-made tool to measured standard of companies. For the compliance of the objective each ESG factors divided into components and analyzed. The study concluded that the Companies having high scored on policy disclosures followed by governance factor, compared to environment and social factors.

Keywords: Environmental, Social and Governance (ESG), Disclosure, Business Responsibility Report (BRR), ESG score and Indian companies.

1. Introduction

1. **ESG**: The term ESG grasped attention when it was first introduced by United Nation’s Principles of Responsible Investment (UNPRI), and now it has come veritably popular among investment fraternity. According to the World Council for Economic Development (WECD), sustainable development is “development that meets the requirement of the present without compromising the capability of unborn generations to meet their own requirement”. The corporate sector and the investment community are crucial players towards achieving this aim. By measuring and disclosing the profitable as well as social and environmental impacts, companies can work towards sustainable

development. Sustainability reporting, as an enabler, is a requisite tool that can advance the private sector contribution to global sustainable development.
A strong and meaningful ESG program can set a vision for an association's environmental and societal influence, furnishing value both internally and externally.

- Establishing **environmental** objective can help reduce your carbon footmarks and climate change, natural resource conservation, air and water pollution, deforestation, energy effectiveness, water scarcity and conservation, ethical treatment of animals and determine your sourcing strategy and set a foundation for how to eliminate unnecessary waste.
- From a **social** impact lens, how does the company manage its business connection, company can make a meaningful diversity program, customer satisfaction, data protection and privacy, workplace policies, enhance worker health, gender and diversity addition, employee engagement, community engagement and services, volunteer work and donations, human rights, labour standards, employee health, safety and make continuing changes in your community.
- And by erecting a strong **governance** foundation, you can diversify your board, leadership, structure, internal controls, administrative pay, lobbying, political benefaction, whistle-blower schemes, shareholder rights, board composition, enhance business ethics, increase stakeholder transparency, and safeguard privacy.

ESG disclosure provides investors with a fresh lens for reviewing and assessing companies and assets, not just for equity performance, but also for factors that affect bond pricing and real asset valuations. There's an overt social value to connecting with assiduity peers, suppliers and customers by meaningfully contributing to ESG-driven dialogue.

2. BRR: In 2012, SEBI commanded the top 100 listed entities by market capitalization to file Business Responsibility Reports (BRR) as part of their periodic report, as per the disclosure requirement emanating from the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' (NVGs). The demand for filing BRRs was precipitously extended to the top 500 listed entities by market capitalization in 2015 and to the top 1000 listed entities in 2019. Principally, the Business Responsibility Report is a exposure of adoption of relinquishment business practices by a listed company to all its stakeholders. At a time and age enterprises are increasingly seen as critical factors of the social system, they're responsible not merely to their shareholders from revenue and profitability but also to the larger society which is also its stakeholder.
As per clause (f) of sub regulation (2) of regulation 34 of listing regulations, the periodic report shall contain a business responsibility report describing the initiatives taken by the listed entity from an environmental, social and governance perspective in the specified format.

The BRR framework is divided into five sections:

1. Section A: General Information about the Organization – industry, Sector, Products & Services, Markets, other general information.
2. Section B: Financial Details of the Organization – Paid up capital, Turnover, Profits, CSG spend.
3. Section C: Other Details – BR initiatives at Subsidiaries and Supply-Chain Partner.
4. Section D: BR information – Structure, Governance & Policies for Business Responsibility.
5. Section E: Principle-wise Performance – Indicators to assess performance on the 9 Business Responsibility principle as envisaged by the National Voluntary Guidelines (NVGs).

3. Literature Review

A considerable amount of research has been conducted over the last few years with respect to ESG. Some significant studies are mentioned below:

4. **(Amosh & Khatiba , January 2023)** also found that companies in emerging markets outperform companies in developed markets regarding environmental performance, while developed markets focus on social performance. Besides, the ESG performance is positively and significantly affected by the COVID-19, which indicates that during crises, it is important for companies to comply with ethical behavior and the most acceptable in societies. Also, the pandemic has a positive impact on both environmental and social performance, while it has a negative impact on governance performance alone.

5. **(Sana & Basak, 2022)** conducted a study to examined sustainability reporting practices of oil and gas industry in India. With the help of narrative disclosure and descriptive statistics, it is found that the companies belonging to this industry are absolutely aware of the significance of sustainability reporting practices and hence they have been following such practices in line with the globally accepted GRI guidelines for achieving Standardized disclosure on ESG parameters.

6. **(Agnihotri, kumar, & Attree, 2022)** analyzed an empirical study of business responsibility reporting in ESG perspective in selected Indian banks. The core focus of this study is to understand the concept of BRR in ESG perspective. The sections level of BRR disclosures in ESG perspective is found in SBI and HDFC bank have been dealt with. It is suggested that SEBI should make it mandatory for banks to prepare standalone BRR with annual reports.

7. **(Inamdar & Rachchh, 2022)** stated that in their article in The Management Accountant (ESG) 2022, The CSR experience has created fertile ground for Indian companies to embrace ESG practices. Currently top 1000 listed companies make disclosures related to E&S through BRSR (Business Responsibility Sustainability Reporting) and governance through corporate governance disclosures under listing obligations. Some multinational Indian listed companies already have been following various international ESG norms of disclosures and reporting voluntarily even before introduction of BRR. Institutional investors can demand higher ESG disclosures from potential investee companies pushing corporates for more engagement to enhance ESG impact. Recently SEBI also proposed various norms related to disclosures and regulation for ESG mutual funds schemes9 and ESG rating providers10. Indian ESG reporting and disclosure is now rapidly moving towards global international standards and timely regulatory push by SEBI can trigger the chain reaction to further strengthens the ESG ecosystem.

8. **(Dahivale, 2022)** were view of that ESG disclosures are wholeheartedly welcomed by the investors as these reporting practices will be beneficial in the identification of ESG risks and performance evaluation. Each company is different from the other in terms of the sector and industrial environment it is operating in. Here ESG necessities can be looked up as a ‘stakeholder driven approach, and more precisely ‘investor driven approach’. The same formula can’t be applied for the individual company because of their uniqueness. Achieving high scores in ESG will enhance the existing ‘brand

image' of companies as it reflects market recognition of that company with reference to the company's social responsibilities, efforts, and performance.

9. **According to the journal of The Institute of Cost Accountants of India (The Management Accountant (ESG) 2022),** ESG are three key factors used to measure a company's sustainability and social responsibility performance. ESG is more than good intentions. It's about creating a tangible, practical plan that achieves real results. Success is not about climate change, diversity and disclosures alone. It's about embedding these principles - and more across your business - from investment to sustainable innovation.

10. **(Bag & Mohanty , June 8, 2021)** revealed that ESG disclosures are positively related to financial performance of companies in terms of return on assets (ROA), and companies' governance practices are more significant as compared to climate related disclosures. It is suggested that in the present scenario, investors instead of going for higher returns, must invest in companies, which make adequate disclosures on sustainability related issues.

11. **(Sharma , Panday, & Dangwal, 2020)** presented Determinants of Environmental, Social and Governance (ESG) disclosure: a study of Indian companies. They conduct content analysis to analyses the ESG performance of the sample companies from their annual and sustainability reports. The study reveals the extent of the disclosure of ESG to companies annual and sustainability reports and constructed the CSR index based on GRI framework and Clause 49 of listing agreement.

12. **(Silva & Silva , May,2020)** found that the current ESG risk disclosure practices in the Australian context giving reference to the extractive sector companies for which ESG disclosure has become a crucial reporting requirement. ESG disclosure trend is in the right direction, an important next step is for the bodies that issue-reporting instruments to focus on coordination and harmonization that requires increased levels of collaboration and joint commitments between these regulatory agencies.

13. Objectives of the Study

The study was conducted to intends answer the specific following objectives.

1. The primary objective of the study is to identify and examine the ESG components of selected Indian companies.
2. To make analysis of BRR policy disclosures and compliance in top ESG scorer.

14. Research Methodology

The investment universe is evolving rapidly with increasing awareness of investment managers and investors towards impacts of environmental, social, and governance (ESG) factors on investment returns and risks.

Selection Criteria and Sample Size:

- Company who had high ranking in CRISIL Sustainability Ranking 2023 (Table 1).
- Company must have disclosed either integrated or sustainability report or related report for FY 2022-2023, and
- With in the list of top 100 companies by market capitalization (as on 31 March 2022).

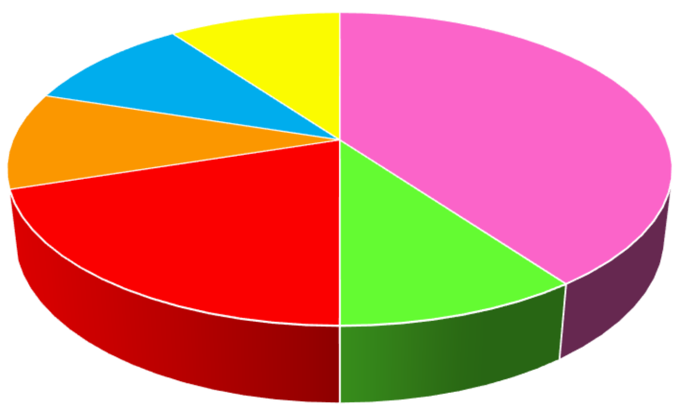
Why the IT / banking / finance sectors are excluded: Direct environmental and social impact due to business operations of finance and IT companies are minimal, compared to companies involved in other industries, especially companies involved in manufacturing activities, which have a high potential for negative impact (on E&S). To focus on such impactful companies, a conscious decision was taken to exclude finance & IT companies. The other reason was that these companies dominate the top 10 companies market cap list, and their inclusion would have made sample a biased one.

Table 1: Market capital of companies (as per 31st March 2022)

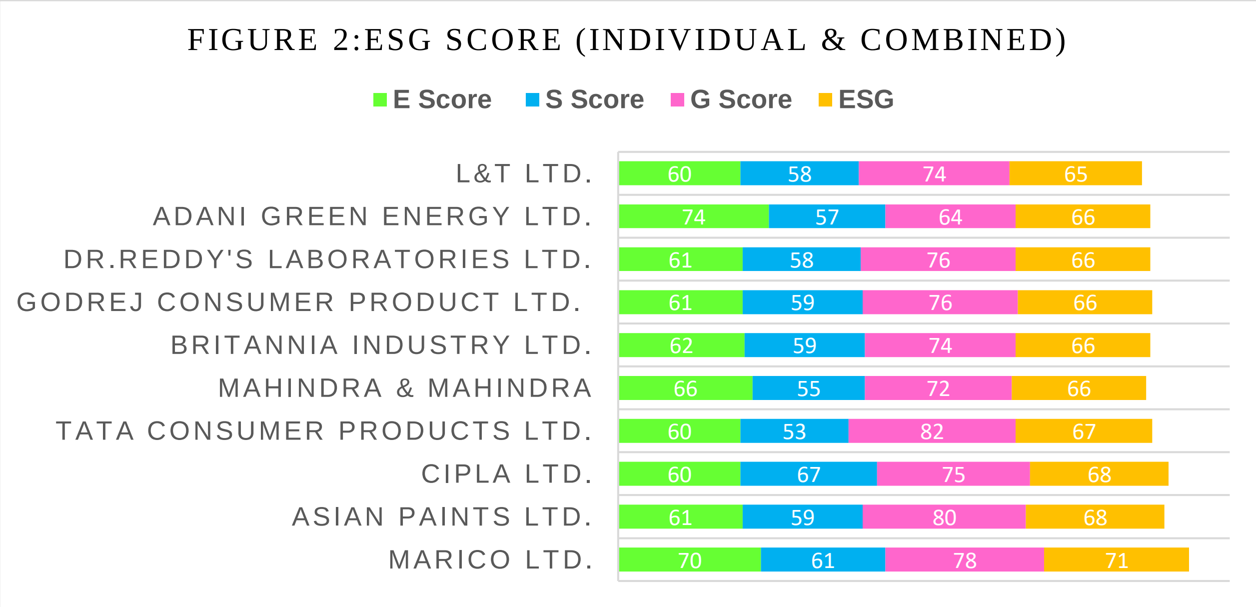
S. No.	Company Name	Sector	Market cap. (₹ in lakhs)	ESG (Out of 100)	Category
1	Marico Ltd.	FMCG	5311291	71	Leader
2	Asian Paints Ltd.	Paints	24338685	68	Strong
3	Cipla Ltd.	Pharma	6573459	68	Strong
4	TATA Consumer Production Ltd.	FMCG	5887794	67	Strong
5	Mahindra & Mahindra	Auto	9886489	66	Strong
6	Britannia Industry Ltd.	FMCG	8731596	66	Strong
7	Godrej Cons. Product Ltd.	FMCG	7460571	66	Strong
8	Dr Reddy's Laboratories Ltd.	Pharma	7510125	66	Strong
9	Adani Green Energy Ltd.	Power-Re.	17280012	66	Strong
10	L&T Ltd.	Diversified	19927530	65	Strong

The above data is pictured in the next graph.

Figure 1: Top selected Companies



- Time period, Data Collection: ESG score and components with BRR disclosures of selected companies for the FY 2022-2023 were taken in to consideration for analysis purpose for their respective websites and regulatory authorities.
- Average score of each component of Environmental, Social and Governance factors in respect of ESG score.



15. Interpretation:

Objective 1. Analysis the Environment, Social and Governance (ESG) components of selected companies:

1.1 Environmental Reporting

Scores obtained by sample companies on E factor have been analyzed mainly covering the company's disclosure regarding the impact of its operations on the environment and steps being implemented by the company to mitigate its environmental impact. Additionally, it was also analyzed whether the company has managed to reduce its impact on environment. As a result of the data collection, this study captured eight environmental indicators relating to the impact of businesses interaction with natural environment, environment protection, as well as GHG emission, and energy consumption. As illustrated in Table 2, environment policy on website and initiative was the highest reported indicator, and 10 out of 10 companies (100% of the sample) report their emission. However, due to the different reporting measures it is harder to compare the performance mainly due to lack of standards in reporting which was highly emphasized in the literature. On the other side, companies do not mention the environmental incidents component in their annual report. When looking at those indicators with a lower reporting rate, it is not clear whether companies avoided reporting information or whether this sort of incident did not take place during the reporting period. This could be worth exploring in a future study.

(Table 2: Environmental Components)

S.no.	Indicators identified for the environment component	Reported	%	Not Reported	%
1.	General Disclosure				
	A) Environment policy on website	10	100	0	0
	B) Environment Initiative	10	100	0	0
	C) Initiatives address global environment issue	9	90	1	10
	D) ISO Certification (Any Green Management)	6	60	4	40
2.	Product Services (Sustainable sourcing, Packaging,	9	90	1	10

	Life Cycle Assessment)				
3.	Energy Consumption (Data Disclose)	8	80	2	20
4.	Renewable Energy (Solar plants, Roof top solar panels etc.)	8	80	2	20
5.	Water Consumption, Recycle, Reuse (Data Disclose)	7	70	3	30
6.	GHG / Carbon Emission (Data)	8	80	2	20
7.	Waste management	7	70	3	30
8.	Environmental Incidents	NM	-	NM	-

1.2 Social Reporting

Scores obtained by the sample companies on S factor have been analyzed under this head, mainly covering the company's disclosure regarding its relationship with its human capital and relationship with its stakeholders. Analysis included evaluation of practices and policies adopted by the company for fair and equitable treatment of all stakeholders. Basically, Social indicators show the extent of company's responsibility towards the communities in which it operates. As reported in Table 3, all the 10 companies in the sample reported a majority of the social indicators use in the study. Due to the legal aspect companies bound to disclose their components.

(Table 3: Social Components)

S.no.	Indicators identified for the social component	Reported	%	Not Reported	%
1.	Work Force				
	A) Total Employees	10	100	0	0
	B) Women Employees	10	100	0	0
	C) Employees with disability	9	90	1	10
2.	Health & Safety (Policies & Disclose)	10	100	0	0
3.	Relationship with local community (Program)	8	80	2	20
4.	Data Security and Customer Orientation (Policy)	8	80	2	20
5.	Relation with employees	7	70	3	30
6.	CSR	10	100	0	0

1.3 Governance Reporting

Scores obtained by the sample companies on G factor have been analyzed in this head. Social indicators investigate the reporting of governance information by using six indicators, all of which are included in reporting requirements. As shown in Table 4, all the 10 companies used in the sample reported the information related to board composition, board disclosures, director's remuneration, audit as well as financial reporting. Overall governance factors score better than E & S factors.

(Table 4: Governance Components)

S.no.	Indicators identified for the Governance component	Reported	%	Not Reported	%
1.	Board Composition	10	100	0	0

2.	Board Committees (Transparency & Disclosures)	10	100	0	0
3.	Director's Remuneration	10	100	0	0
4.	Audit	10	100	0	0
5.	Financial Reporting	10	100	0	0
6.	Stakeholders Engagement	7	70	3	30
7.	Other Governance Components				
	A) code of conduct	10	100	0	0
	B) insider trading (Any case)	0	0	10	100
	C) whistle blowers (Any case)	0	0	10	100
	D) Corruption etc. (Any case)	0	0	8*	80

*Two companies did not mention this component in their annual reports.

Objective 2. Policy Disclosure:

This object analyzed the company's disclosures in the Business Responsibility Report (BRR) which comprises nine principles of business responsibility, and general discussion on the E and S factors. The disclosures are further revaluated in detail in particular sections, environmental and social. Environmental and social footprints of the company's products and services do not start or end with the company alone. They extend to raw material providers, suppliers, distributors, and consumers, who are important participants along the product life cycle. Hence, it is imperative that in the efforts of the company to improve its environmental or social impact, its BR initiatives must extend to and be applied by entities the company does business with.

(Table 5: Policy Disclosures)

S.no.	Indicators identified for the policy disclosure component	Reported	%	Not Reported	%
1.	Principle-wise (as per NVGS) BR policy	10	100	0	0
2.	BRR Implementation	10	100	0	0
3.	General Disclosures	10	100	0	0

Overall sample companies have scored well in policy disclosures indicated in Table 5. This may be because the sample companies are mandated by SEBI to publish their BRR in prescribed formats. BRR requires companies to disclose if they have formulated policies across nine principles of BR, reflecting that compliance in letter by most companies. The BRR format requires companies to provide a 'yes/no' response to a set of questions on policy formulation across nine principles of BR. In case a company does not publish its BRR separately, it must provide a mapping of answers to questions under the BR format, with their sustainability report.

As a result, information required to be disclosed in tabular format is not easily obtainable. In the absence of structured information, to reflect factual position, a manual search was done to ensure correct score wherever possible (table 6). However, from an investor's perspective, information should be readily available without many efforts or hassle. Therefore, as a policy, considering investor convenience, in the next evaluation exercise, such companies shall lose score if disclosures are not provided as per tabular format or in a consolidated manner at one place.

(Table 6: Policy Disclosures)

S.no.	Sections Disclosures	Out of	Min.	Avg.	Max.
1.	Section A	20	18	19	20
2.	Section B	20	20	20	20
3.	Section C	10	9	9.90	10
4.	Section D	14	11	13.20	14
5.	Section E	36	33	31.40	36

16. Limitation

The scoring Model has been developed with utmost care, objectivity, and conscientiousness. Researcher intention is to bring to concentrate the importance of good ESG practices. ESG scores alone cannot be used for investment decisions and are used as a supplement or a fresh tool to help stakeholders to take a considered and holistic view about the company. ESG score does not ensure future performance. The scores are calculated from publicly available data and are dependent on information made available by the company and taken as true in good faith.

17. Finding & Conclusion

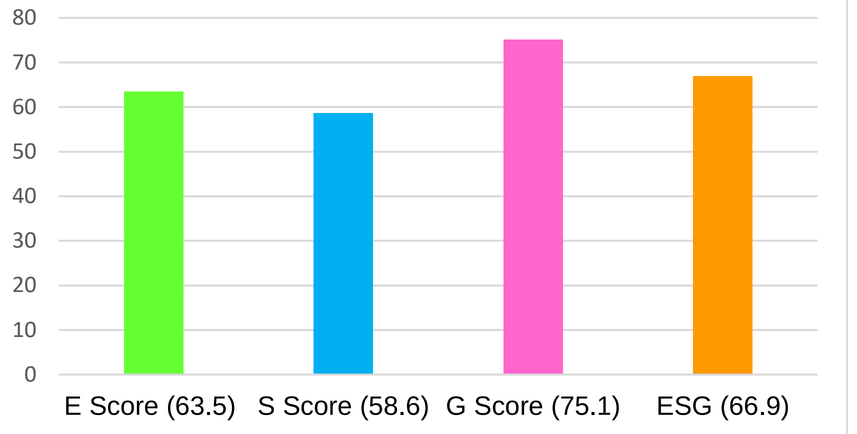
ESG factors, having become crucial areas of interest for investors, framework and guidelines for disclosure and assessment of key ESG factors have assumed critical significant. Investors are incorporating ESG parameters for assessing their portfolios, look for criteria to assess ESG performance of their investee companies and all potential investee companies. The ESG model has been designed to objectively evaluate the company's disclosure and performance on ESG front. As a result, evaluation parameters in the model under three factors – Environment, Social and Governance – are not only based on mandatory legal requirements to be followed by listed Indian companies. They must also incorporate best practices followed around the world.

Among the nine principles, the least number of sample companies responded appreciatively for disclosures on principle 7 (i.e., public advocacy). Principles such as principle1, principle 3, principle 6 and principle 8 compliance was observed with respect to policy formulation. BR report format requires companies to disclose a link to view the policy on the company's website. In the absence of such hyperlinks, it is inconvenient for stakeholders to search a company's website to find relevant information, especially, for those stakeholders who are not tech-savvy.

Low scores of social components in ESG score explained: Sample companies missed out mainly due to inadequate disclosures on the number of workforces, employee relation practices, training of workers, health and safety, fatalities, stakeholders' relationships, data security, and the impact of the company's business operations on local community.

Companies have largely scored better on policy disclosures followed by governance factor, compared to environment and social factors. This can be attributed to the fact that governance reforms have converted into laws by various regulatory agencies within India, in the last two decades. Similarly, many policies have been mandated to be prepared by regulatory authorities. Hence, companies have scored higher on policy disclosure parameters.

Figure 3. Average score of each component



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