ESG REPORTING IN INDIA: CURRENT SCENARIO

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Abstract

The paper describes the development of reporting on Environment, Social and Governance (ESG) issues in India and analyse the current situation with respect to ESG reporting. This paper uses a review of academic studies on sustainability/ESG reporting practices among Indian companies as well as surveys undertaken by professional accounting and credit rating firms such as KPMG, PWC, Ernst & Young and CRISIL. While a few large Indian companies have been reporting on their ESG performance for quite some time now, many more have begun reporting in recent years as it allows them to showcase their commitment towards the sustainability agenda. The rising trend in ESG Disclosures is a result of the increasing demand from stakeholders for relevant and accurate data on the one hand and the increasing regulatory imperatives on the other. The lack of regulatory requirements so far has resulted in less attention being paid to the E and S issues as compared to the mandatory G factors. A systematic study of the developments in Sustainability/ESG reporting in the context of India specially after the recent changes in the regulatory landscape is expected to add to the knowledge on the subject. Massive environmental changes happening across the globe, technological advances and the global pandemic have brought about a noticeable change in the way stakeholders assess the resilience and sustainability of businesses. The conventional financial metrics reported by corporates are no longer perceived as tools to understand the value a company can create and the business corporates are expected by stakeholders and regulators to report about the Environmental, Social and Governance aspects of their business. This study highlights the need for understanding the large part of corporate reporting which has not yet been incorporated into the mainstream accounting and reporting knowledge and curriculum frameworks.

KEYWORDS- ESG, Indian Companies, Sustainability Reporting, Business Responsibility Report, BRSR

JEL Classification- M140, G3, G380, M480, M490

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1. INTRODUCTION

Over the past two decades, massive environmental changes happening across the globe and technological advances have brought about a noticeable change in the way stakeholders assess the resilience and sustainability of businesses. The conventional financial metrics reported by corporates are no longer perceived as tools to understand the value a company can create. There has been a paradigm shift in Corporate Reporting over time in order to meet the information needs of the stakeholders. Over the years, it has evolved from traditional financial reporting to sustainability reporting and more recently to Integrated Reporting (Bal 2018). Today, in addition to the financial reporting, business corporates are expected by stakeholders and regulators to report about the Environmental, Social and Governance (ESG) aspects of their business.

Reporting on social and environmental impacts of corporates has been called by different names such as - CSR reporting, Sustainability reporting, Non-Financial reporting, Triple Bottom Line reporting and ESG reporting signifying their main focus. For example, while CSR reporting is focused on the impact of the business on different stakeholders in society viz. consumers, employees, local community etc.; sustainability reporting is about the impacts of a company on the society and natural environment; ESG reporting includes disclosures relating to the environmental, social as well as governance issues that the firm is facing and which may affect the value of the firm. However, the terms are related and in the academic literature on the subject, these are used interchangeably with Sustainability Reporting being the most used term. The term ESG became popular after the 2004 report of Global Compact titled “Who Cares Wins” (Compact 2004).

ESG reporting is more concerned with the investment community and financial decision-making - “issues which have or could have a material impact on investment value. It [the report] uses a broader definition of materiality than commonly used — one that includes longer time horizons (10 years and beyond) and intangible aspects impacting company value. Using this broader definition of materiality, aspects relating to generally accepted principles and ethical guidelines (e.g. the universal principles underlying the Global Compact) can have a material impact on investment value.” (Compact 2004: 2) These are a group of corporate performance evaluation criteria that assess a company's ability to effectively manage its environmental and social consequences as well as the strength of its governance procedures.

While Financial Reporting is mandatory and there are National and International Financial Reporting Standards to guide them, reporting on ESG issues is still in its nascent stages. However, it is fast getting traction as governments of many countries including Denmark, Malaysia, China, South Africa and the Philippines require some specified companies to make ESG-related disclosures. The Corporate Sustainability Reporting Directive issued by the European Commission in April 2021, mandates that large European companies disclose how they address ESG issues. This directive is guiding legislative changes in the National laws in some of the EU countries. Other countries like Australia, Mexico and France have also started reporting issues related to climate change. In the US, the Securities and Exchange Commission (SEC) requires that companies should enhance the disclosure of ESG-related information in their public company filings. These developments have led to the growth of ESG Indices and ratings as well as standards for disclosure in the last two decades. The demand from the investors for evaluation and rating of ESG-related data by ESG ratings providers (ERPs) has also increased.

Aims: This paper aims to describe the development of Business Responsibility reporting and related regulatory frameworks in India and analyse the current situation with respect to reporting of ESG factors by Indian Companies. The Main research question is "How are Indian Companies responding to the demands for reporting on ESG issues from the investors, government and other stakeholders?"

Methodology: Disclosures on ESG factors are generally contained in the Sustainability Reports (Arvidsson & Dumay 2022). "The sustainability report is expected to give both positive and negative contribution of the ESG performance of the organisation" (Nayak & Kayarkatte 2020: 339). Of the large number of academic studies on SR produced in the last 20 years, the most important ones that look at the global trends in SR include Kolk (2003, 2004) and Milne & Gary (2007). These studies base their analysis of the trends in SR upon the KPMG survey reports. While the analysis by Kolk (2004) is based on the KPMG reports of 1993, 1996, 1999 and 2002, Milne and Gray (2007) use KPMG reports of 1996 - 2005. All these studies find that the percentage of companies reporting on their environmental and social responsibility has been steadily rising among the sample companies.

This paper uses review of academic studies on sustainability reporting practices among Indian companies as well as surveys undertaken by professional accounting and credit rating firms such as KPMG, Deloitte, PWC, Ernst & Young and CRISIL.

Structure: The paper is divided into 5 sections. Section 1 gives the background of ESG reporting and outlines the main research question, aims and methodology of this research. Section 2 presents a review of the literature on the subject. Sections 3 describes the development of ESG reporting in India. Section 4 presents an analysis of the current situation in corporate ESG disclosures in India. Section 5 presents the conclusion and scope for further research.

2. REVIEW OF LITERATURE

This section briefly captures the important studies focusing on ESG reporting globally as well as studies undertaken in the context of Indian companies.

Sellhorn and Wagner (2022) look at ESG reporting as part of Corporate Reporting and explain that "ESG reporting is evolving to resolve two sets of interrelated problems" (p. 12). They term these two as "inside-out" and "outside-in" perspectives. While the "inside-out perspective" relates to providing information on ESG issues to the stakeholders in order to empower them with information that they can use to hold companies responsible for their impacts, the "outside-in" perspective refers to informing the investors about the risks and opportunities presented by the ESG issues faced by the company. It "seeks to inform capital providers about the implications of ESG for the enterprise value of business entities" (Ibid.: 13). The paper outlines the economic forces and social institutions that have shaped the landscape for mandatory ESG reporting. Eccles and Stroehle (2018) contend that the founders as well as the country of origin, mission, first clients etc. of the data vendors not only result in different dimensions used to capture ESG data but also in diversity in definitions of materiality, as well as affect the service and product offers of each vendor. They call this 'the social construction of the ESG Data'. In a more recent article (Eccles, Lee & Stroehle 2020), they expand upon their earlier argument by using the example of the two most important ESG Data vendors of their time - KLD and Innovest (both data vendors were subsequently acquired by MCSI, USA). The article provides a short history of ESG and trace the increasing importance assigned to ESG data/disclosures in recent years to the acknowledgement of the financial value of ESG issues and their associated risks by the investment community. It argues that "This shift in focus among investors, from values-driven SRI to a financial value–driven ESG interest (either instead of or in addition to a focus on values), has resulted in a surge of interest in ESG data" (Ibid.: 575). It shows that investors use different ESG data from that used by academics. Arvidsson and Dumay (2022) argue that for mitigating environmental and social risks, *ESG performance* is more important than ESG reporting. Therefore, rather than concentrating on the quantity or quality of disclosures in the ESG reports, the focus should be on the ESG performance of companies.

The Indian Studies

Among the Indian studies on ESG, many (Chelawat &Trivedi 2016; Singh, Singh & Shome 2022; Kumar & Firoz 2022; Gupta, Sharma, & Prashar 2022) have focused on the relationship between the ESG disclosures of companies and company's financial performance (CFP). Their findings are, however, inconclusive – while Chelawat & Trivedi (2016) and Kumar & Firoz (2022) find that good corporate ESG performance and disclosures increase CFP, Singh et. al. (2022) find a negative relation between ESG and CFP. Hasan et. al. (2022) uses ESG scores to measure Corporate Social Responsibility Disclosure (CSRD) and finds that for some industries such as consumer goods, consumer services and heavy engineering, the association between CSRD and CFP is positive, while for healthcare and energy and utility firms, the relationship is negative. It, therefore, concludes that the type of industry, as well as the type of financial performance indicators used, affect the CSRD–CFP dynamics. It has also been found that the extent and quality of information disclosed by companies are positively correlated with the firm size and market capitalization (Kumar, Kumari & Kumar 2021).

Studying the impact of ESG disclosure on credit ratings of 500 BSE (Bombay Stock Exchange) listed companies, Bhattacharya and Sharma (2019), find that ESG strongly influenced credit rating in the intended direction in case of small- and middle-level enterprises only and showed little effect in case of large firms that already had better credit ratings. It also reveal that the level of total ESG reporting and disclosure was itself affected greatly by the credit rating.

3. DEVELOPMENT OF THE ESG REPORTING IN INDIA

Large Indian corporates (groups) have been voluntarily publishing sustainability reports over the past two decades. For example, Reliance Industries Ltd., a Fortune 500 company and the largest private sector corporation in India, has been voluntarily publishing GRI checked A+ sustainability reports since 2004-05. TATA, one of the oldest corporate groups in India and its 40 group companies have been pioneers in undertaking voluntary sustainability reporting[3] on the frameworks of the United Nations Global Compact and GRI. Many other Indian companies such as Infosys and Wipro also started publishing sustainability reports in the 2000s. "Publication of annual sustainability reports and integrated annual reports, based on the GRI Standards and the

[3] While earlier, the non-financial reports of the group companies were called sustainability reports, some of the recent reports use the term ESG reporting.

Integrated Reporting Framework respectively" is the most commonly used means of reporting among Indian companies (Ernst & Young 2021: 13).

As Figure 1 shows, reporting on social and environmental aspects was voluntary till 2012 when the regulator of the Indian Stock Markets – the Securities and Exchange Board of India mandated the publishing of the Business Responsibility Report by the top 100 Indian companies. Prior to this, in 2009, the Ministry of Corporate Affairs (MCA) issued CSR voluntary guidelines as well as Corporate Governance voluntary guidelines. MCA issued its National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business in 2011. The Companies Bill 2011 made significant recommendations for enhancing the quality of corporate governance which were later legislated in the form of the Companies Act 2013.

Figure 1: Milestones of ESG Reporting in India

Early 2000s	• Large companies e.g. Reliance Industries Ltd., TATA group companies, start publishing their sustainability reports following GRI guidelines introduced in 2000
2007	• RBI issued an advisory letter to commercial banks on their role in sustainable development, CSR, and non-financial reporting
2008	• KLD Research & Analytics,CRISIL and S&P launched S&P ESG India Index
2009	• CSR voluntary guidelines published by Ministry of Corporate Affairs (MCA)
2011	• MCA published NVGs on Social, Environvental and Economic Responsibilities of Business • Companies Bill 2011- CSR Report to be included by Companies stating CSR policy
2012	• Publishing of Business Responsibility Report (BRR) made mandatory by SEBI for Top 100 listed companies
2013	• MSCI India ESG Leaders Indexwas launched
2014	• Companies Act, 2013 mandated companies of certain turnover and profitability to spend 2% of average net profit for past three years on CSR
2016	• Publishing of BRR extended to top 500 companies • SEBI issued green bond guidelines
2018	• Issuance of Guidelines for ESG Reporting on Voluntary basis by Bombay Stock Exchange in 2018
2019	• BRR extended to top 1000 companies • NVGs were revised and released as National Guidelines for Responsible Business Conduct (NBRBC)
2020	• MCA proposes a new format for Business Responsibility and Sustainabilty Reporting (BRSR)
2021	• BRSR made applicable to top 1000 listed companies by market capitalisation on voluntary basis and mandatory from FY 2022-23

Source: MCA and SEBI notifications

Business Responsibility Report (BRR)

The BRR is the first regulatory non-financial reporting framework in India on ESG introduced by the Security and Exchange Board of India (SEBI) in 2012 and emphasised the company's effort towards creating value for all its stakeholders. It was based on National Voluntary Guidelines (NVG) released in 2011, by the Ministry of Corporate Affairs (MCA) on the Social, Environmental, and Economic Responsibilities of Business. The NVGs were aligned with the UN Millennium Development Goals (UNMDGs) and focused on the following nine principles[4] that largely related to environmental, social and governance issues and were expected to be disclosed by all responsible corporates:

1. Businesses should conduct and govern themselves with Ethics, Transparency and Accountability
2. Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle
3. Businesses should promote the well-being of all employees
4. Businesses should respect the interests of, and be responsive toward all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.
5. Businesses should respect and promote human rights
6. Businesses should respect, protect and make efforts to restore the environment
7. Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
8. Businesses should support inclusive growth and equitable development
9. Businesses should engage with and provide value to their customers and consumers in a responsible manner

The Bombay Stock Exchange (BSE) issued a Guidance Document on ESG Disclosures (BSE 2018) suggesting 30 Key Performance Indicators (Figure 2) to be reported voluntarily by the companies listed on the stock exchanges in India.These are:

[4] https://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

Figure 2: ESG – Key Performance Indicators

Environmental	Social	Governance
Environmental Policy	Full time Employees	Gender diversity on Board
Environmental Impacts	Monetary and non - monetary benefits for employees	Board - Independence
Energy Consumption	Attrition Rate	Board - Separation of Powers
Energy Intensity	Training and development Hours	Voting Results
Carbon/GHG Emissions	Health care benefits	Gender Pay Ratio
Primary Energy Source	Human Rights Policy	Incentivized Pay
Renewable Energy Intensity	Human Rights Violations	Business Ethics and Code of Conduct
Water management	Child & Forced Labour	Supplier Code of Conduct
Waste Management	Gender parity ratio at Workforce	Bribery/Anti-Corruption Code
	Community and social Work	Corporate Governance
	Local Procurement	

Source: BSE's Guidance Document on ESG Disclosures (BSE 2018: 8)

However, as noted by Arvind Sharma, Director of Climate Change and Sustainability Services, KPMG, India, SR in India was still in its infancy till 2014 with only 40 companies reporting on their sustainability performance (Sharma 2015). Construction and building material, metals and mining, oil and gas and chemicals were among the early reporting sectors. Very few or no companies belonging to sectors like transportation, finance, trade and retail and communications engaged in SR. The prime driver for majority of the companies was enhancing their brand reputation. Sharma (2015) notes that very few companies used the company's business strategy, its risk assessment framework and the stakeholders' feedback to choose the content of the SR. The reports were focused more on complying with the requirements of the reporting guidelines than on the material aspects, goals or stakeholders' priorities. Many companies engaged reputed accounting firms for third-party assurance of their SR in order to gain credibility.

BRR was initially mandatory for the top 100 listed companies and in due course, the coverage of BRR increased and by 2019 it became mandatory for the top 1000 listed companies. However, owing to rapid global developments it was realised that the BRR Reports lacked quality, rendering the reporting unreliable. Realising the issue, the MCA revised NVGs and released them as the National Guidelines for Responsible Business Conduct (NGRBCs) in 2019.

For an emerging economy like India, ESG reporting is essential because it allows all stakeholders an opportunity to develop an economic measuring system that goes beyond conventional financial metrics. Recognising this need, the Securities and Exchange Board of India (SEBI) issued a circular on May 10, 2021, that requires the top 1,000 listed companies (by market capitalization) to make disclosure according to the new format of the Business Responsibility and Sustainability Report (BRSR) replacing SEBI's existing Business Responsibility Report (BRR) that is required as part of the annual report submitted to Indian stock exchanges.

Business Responsibility and Sustainability Reporting (BRSR)

BRSR is an updated ESG reporting framework mandated by SEBI applicable to top 1000 listed companies (by market capitalisation), for reporting on a voluntary basis for the financial year 2021-22 and on a mandatory basis from FY 2022-23. It replaces the earlier BRR. It is also applicable on a voluntary basis for listed companies (other than the top 1000) and companies which have listed their specified securities on the Small and Medium Enterprise Exchange (SME) to submit the BRSR form FY 2021-22 onwards. BRSR is based on the Indian government's "National Guidelines on Responsible Business Conduct" (NGRBC) and driven by the UN Sustainable Development Goals (SDGs), the Paris Agreement and ILO Convention. Its reporting requirements are also benchmarked with other international ESG reporting frameworks including Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD). It requires disclosures from companies on their performance against the nine principles of NGRBC and is more vigorous as compared to BRR. Reporting under BRSR was on a voluntary basis for FY 2021–22 and from FY 2022-23, it has become mandatory for the top 1000 companies. Its applicability is proposed to be extended to all companies including LLPs in the next 5 years. Initially, the company must give a statement outlining ESG-related issues, goals, and accomplishments and recognise the potential risks and possibilities that it encountered while striving to embrace the principles of environment, social, and governance. Reporting format as prescribed by 'Annexure I of SEBI circular of May 10,2021', for BRSR comprises three sections

Section A: General Disclosures;

Section B: Management and Process Disclosures

Section C: Principle-wise Disclosures.

While disclosures under Section A and Section B are mandatory; Section C has disclosures under two categories – Essential indicators which are mandatory and expected to be disclosed by every entity, and Leadership indicators which are voluntary and disclosed by entities which aspire to progress to a higher level of socially, environmentally and ethical responsibility (Figure3).

Figure3: Business Responsibility & Sustainability Reporting Format

Section A (General Disclosures)	Section B (Management and Process Disclosures)	Section C (Principle-wise Performance Disclosures)
• Details of the listed entity • Products/services • Operations • Employees • Holding, Subsidairy and Associate Companies (including joint ventures) • CSR Details • Transparency and Disclosure Complainces	• Under this disclosures are required on policy and processes relating to NGRBC dealing with leadership, governance, and stakeholder engagement.	• **Essential indicators** • Data on energy, waste, water, and emissions • R&D and capital expenditure made to improve environmental and social impacts • Training programmes conducted • **Leadership indicators** • Life cycle assessment for products/services • Biodiversity • Energy consumption • Conflict management policy • Suppy chain disclosures

Source: SEBI Circular of May 10, 2021 No.: SEBI/HO/CFD/CMD-2/P/CIR/2021/562 **(**Annexure I)

Companies are expected to digitally update the data in the MCA 21 portal: A listed company would have to report twice. First in the annual report and second on the MCA 21 portal.

NGRBC suggests two formats under BRSR disclosures: a comprehensive format and a lite version. The Comprehensive Version is meant for companies already experienced in BRR (listed companies). It contains a very detailed questionnaire where the companies are required to provide specific answers in textual form. The Lite Version is recommended for smaller and unlisted companies (to be voluntarily adopted) and has fewer simple questions with Yes/No or numerical answers.

BRR vs. BRSR

Focus on Material issues and Stakeholder Engagement: Under BRSR disclosure requirements related to environmental and social issues (employees, consumers and communities) for listed companies have been significantly enhanced. It also requires a business entity to identify material ESG issues that present a risk or opportunity to an entity's business, its approach to adapt or mitigate the risk as well as their financial implications. Additionally, companies are also required to include a statement by a director (under a section on management and process disclosures) focusing on the overall vision of the organisation concerning its strategy for managing significant environmental and social impacts that are directly associated with its products or services.

A highly data-driven report focusing on globally recognised and locally relevant indicators: The method of reporting under BRSR as compared to BRR is heavy on data requirements. It comprises more than 120 reported data points across its three sections and nine principles in order to make measurement easy and increase comparability across companies, sectors and time periods.
Additional Disclosures: An additional feature of BRSR is that it seeks disaggregated data for women employees and those that are differently abled.

4. ANALYSIS OF THE CURRENT STATE OF ESG REPORTING IN INDIA

India saw an increase in SR after the SEBI mandated BRR requirement in Annual Reports. As on March 31, 2021, while 100% of the top 100 companies (N 100) in India reported as per SEBI mandated BRR, 79% of them published a report containing ESG disclosures (KPMG 2022: 7). Of these 79 companies, 46% included ESG disclosures in an Annual Integrated Report while 43% used the term Sustainability Report and 11% called these reports – Integrated Report (KPMG 2022: 7).

Reporting on Different Factors

Despite the high rate of ESG reporting by large companies in India on SEBI-mandated BRR, reporting in some areas such as climate change and corporate governance needs improvement and the performance of firms on the environmental category is poorer compared with social and governance. Only a fifth of the 586 companies covered by CRISIL (2022) were found to "have a good level of sustainability disclosure [and most] don't have a roadmap to achieve Net Zero" (p. 4) [5]. The survey indicated that in India, just 1 in 5 enterprises declared their scope1 [6] and scope2 [7] GHG (greenhouse gas) emissions. The disclosure on scope3 [8] emissions was much worse as just 63 out of 586 enterprises disclosed the data.

KPMG (2022) reports that 53% of the N100 firms in India report on their carbon reduction objectives out of which only 36% report on carbon intensity targets, and 64% report on absolute carbon targets. Sixty nine percent of the N100 companies have developed targets connected to

[5] According to United Nations Net Zero means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests for instance. It is an internationally agreed upon goal for mitigating global warming in the second half of the century. India has promised to cut its emissions to net zero by 2070 - missing a key goal of the COP26 summit for countries to commit to reach that target by 2050.

[6] Scope 1 emissions are direct emissions from owned or controlled sources.

[7] Scope 2 emissions are indirect emissions from the generation of purchased energy.

[8] Scope 3 emissions include all other emissions emerging from activities in the organisation's value chain.

environment criteria such as waste, water and energy management and majority (65%) have targets linked to social parameters such as inclusion, employee well-being, inclusion, diversity and development. The report highlights the importance of enhancing robust governance levers to drive organization-wide ESG excellence.

The average environmental score across the companies covered in the CRISIL report was found to be 45, compared with 50 for social and '66' for governance and companies primarily focus on compliance with domestic law rather than analysing what may be relevant for their business to establish benchmarks in the global economy (CRISIL 2022).

A survey by Stakeholders Empowerment Services (SES)[9] finds that scores of Environment (E) and Social (S) factors fare poorly compared to Governance (G) factors owing to the regulatory gaps. Lack of standardised, consistent and comparable disclosure is a major constraint in ranking different companies based on their ESG Disclosures. Owing to "these constraints the scores may not reflect actual performance on E and S factors as till now there have been no set disclosure norms for these factors, whereas for G factors both MCA and SEBI have various disclosure norms" (SES report p. 3). However, using its proprietary SES evaluation model comprising of 315 questions, 1239 parameters and 2200+ data points, the report finds that divergence between Policy, E, S & G score is very narrow among high ESG scoring companies. With BRSR being made mandatory, the disclosures on E and S factors by other companies are expected to improve.

A significant finding is that Governance is found to be positively related to the overall business performance. The absolute operational profit of the top 10 firms on the Governance score, enjoyed a 23% compound annual growth rate (CAGR), whereas those of the lowest 10 registered a negative 7% CAGR during 2018-2019 and 2020-2021 (CRISIL 2022). It is found that companies that link their reporting practices to increasing stakeholder sentiment have a distinct edge in acquiring their confidence (KPMG 2022).

Sectoral Performance

Service sector comprising IT, finance are the leaders in terms of ESG disclosures. The poor disclosures are identified with the chemicals, mining and transport infrastructure industries as well as the Engineering, Procurement and Construction (EPC) sectors. Among the manufacturing

[9] https://www.sesgovernance.com/pdf/home-reports/1649043402_ESG-Scores---Top-100-Listed-Companies-in-India.pdf

sectors Car Original Equipment Manufacturers (OEMs) are leading the disclosures (CRISIL 2022).

Contrary to expectations, industries like cement, mining etc which are generally perceived to be polluting, have performed better than other industries such as consumer goods, pharma and financial which despite having a comparatively lesser environmental impact, have lower scores on E and S factors. It seems that a strong regulatory push in the sectors known for environmental damage has possibly forced the companies in these sectors to adopt better ESG practices and disclosures.

Public vs. Private Sector Companies

A comparison of the public sector enterprises (PSUs) and the private firms reveal that while PSUs performed better on the social factors with an average score of 55 compared with 49 for private firms, they trailed in governance practices as compared to private companies, notably in board composition and operation (CRISIL 2022). PSUs had greater gender diversity (15.3% against 12.7% for private businesses); less attrition (2% against 22% for private) and lower wage inequality (CEO to median employee pay ratio in PSUs was 4.8 times compared to 137 times for private companies). However, despite a 200 percent rise, the percentage of independent directors for PSUs was substantially lower compared with private corporations. The percentage of women directors in PSUs was only 13% while it was somewhat better (19%) for private companies.

Standards and Guidelines Referred for Reporting

External Assurance

An international comparison of corporate governance and sustainability reporting practices of top 30 companies of India, UK and USA finds that though all the top 30 Indian companies published sustainability reports in 2019, only 40% of these were externally assured (Pareek & Pasumarti 2021). However, owing to the growing demand for transparency in reporting, the number of companies undertaking external assurance for their non-financial reports is on the increase. For the FY 2021-22, out of the 100 largest companies in India, 54% were undertaking third party assurance on ESG disclosures (KPMG 2022).

5. CONCLUSION

In the present scenario of rising social inequalities, global climate changes and environmental degradation, a global pandemic of unprecedented scale and the economic effects of all these, the reporting on ESG metrics has become a crucial factor for the assessment of companies' performance. It is contended that ESG disclosures help businesses to improve their performance standards by comparing their own performance with their peers.

While few large Indian companies have been reporting on their ESG performance for quite some time now (leading among them being TCS and Reliance Industries Limited), many more have begun reporting in the recent years as it allows them to showcase their commitment towards the sustainability agenda. The stakeholders are also demanding relevant and accurate data making it imperative for the companies to give the ESG disclosure increased attention at par with the financial disclosure.

Though MCA and SEBI have specified various disclosure norms for the Governance aspects, so far the disclosure norms for the Environment and Social factors have not been clearly specified leading to poor reporting of these aspects by Indian companies. It is expected that BRSR would be a crucial milestone in ESG disclosure in India. While the applicability of BRSR effective from FY 2022-23 will result in a compliance burden for companies, the quality of reporting and the tangible benefits expected therefrom remain the key force for its adoption. Most of the Indian Companies that publish a sustainability report follow GRI guidelines/framework (Sharma 2015, KPMG 2022, CRISIL 2022). Since 91% of the BRSR indicators are found to be aligned with the GRI standards, the transition is expected to be smooth. With the first year of mandatory reporting for the top 1000 listed companies having just started, the assessment of whether BRSR will help gain the confidence of all its stakeholders remains to be ascertained.

One of the major concerns is related to the authenticity of the information presented since there are many global examples where investors have identified significant gaps in disclosures and actual ESG performance. Third-party assurance of ESG data is therefore likely to play a significant role in the initial years to enhance the credibility of reporting as the percentage of companies opting for external audits is on the rise.

At present, the activities of ESG ratings providers (ERPs) are not regulated raising concerns about the potential risks to investor protection and greenwashing resulting in a lack of trust in the ratings. Therefore, there is an imperative need to ensure a transparent and regulated environment in which the ERPs operate. SEBI has therefore been consulting multiple stakeholders, including national and global ERPs, research and audit firms as well as mutual funds that offer ESG schemes. They also sought public comments[10] on a proposed regulatory framework for ERPs.

With the expansion of the regulatory framework, ESG compliance and scores for all sectors are expected to improve. Harmonising ESG reporting and strengthening efforts of regulators to accept that climate risk is the key stumbling block to financial stability is the need of the hour.

6. SCOPE FOR FURTHER RESEARCH

Academic research on ESG reporting in general and in India, in particular, has just started. There is therefore, vast scope for future research. Some of the areas for it are: Investor behaviour concerning ESG investing post-adoption of BRSR; Performance and characteristics of ESG-focused funds and portfolios and Correlation between ESG ratings of companies and their financial performance.

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