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AN ANALYSIS OF EMERGING ESG PRACTICES IN INDIA

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ABSTRACT

This article presents an analysis of emerging Environmental, Social, and Governance (ESG) practices in India. As the global focus on sustainability intensifies, ESG has gained significant attention as a framework for evaluating the performance and impact of businesses. India, with its rapidly growing economy and diverse business landscape, offers a unique context to examine the adoption and implementation of ESG practices.

Through a comprehensive review of academic literature, industry reports, and regulatory frameworks, this research investigates the current state of ESG practices in India, identifying key trends and challenges. It explores the extent to which Indian companies are integrating ESG considerations into their decision-making processes, corporate strategies, and reporting mechanisms. Additionally, the study examines the role of regulatory bodies, investors, and other stakeholders in promoting and incentivizing ESG practices. The findings shed light on the emerging ESG landscape in India, highlighting successful case studies, innovative approaches, and areas for improvement. The analysis aims to contribute to the ongoing dialogue surrounding sustainable development and corporate responsibility, providing insights that can inform policy decisions, business strategies, and investor decision-making in India and beyond.

Keywords: Environmental, Social, Governance, Corporate etc.

INTRODUCTION

Corporations and Companies were to be defined as a group of people working towards the main and only aim of "profit making" but this business outlook has changed at present. The industry

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has been transformed due to the pressing factors of climate change, nature's depletion, the need for sustainability, equality, and equity between people, more incentives, better working conditions, COVID-19, and the ongoing pandemic along with the increasing expectations of people from the corporations.

For survival, growth, and prosperity, corporations and companies need to meet all the demands of the changing environment socially, environmentally, and ethically by building up resilience, creating value sustainably being accountable and transparent to its stakeholders, and showing good corporate governance for long-term betterment. Good Corporate governance practices are the way forward for companies in this dynamic and volatile environment which can be achieved through sustainable growth and practices. Business sustainability is indispensable because it's the virtuous thing to do and it fulfils a company's long-term mercantile interests. It is in the best interest of the corporation to be socially accountable and resourceful because it is these things that assure sustainability[2]. To integrate sustainability into corporations, four essential factors are to be taken into consideration- societal, environmental, organizational, and financial.

As said in legal notation that "Corporate Governance is about 'steering' a company in the right direction". The ex-SEBI Chairman, Mr. M. Damodaran, defined corporate governance as an "ongoing procedure yonder the space of meager law "[1]. This denotes that the concept of corporate governance is much more than compulsory sanction practices, as it is the principles of corporate governance that would help companies to achieve true profitability. The precepts of corporate governance are based on transparency, responsibility, accountability, and fairness which are inherently connected to the company's corporate social responsibility. Good corporate governance is vitally contrived on three precedents (of sustainability): social development, economic progress, and environmental improvements. Good governance stimulates sustainability[3] and helps corporations to attain their sustainable values. And for achievement of such objectives of corporate governance, the reporting systems are the key. One such reporting which had gained a lot of attention recently is ESG reporting, also known as Environment Social Governance reporting.

ESG Reporting is the most sought-after reporting norm and what used to be a soft commitment by companies earlier, has now become a moot point in board meetings as now most international organizations and stakeholders are asking for sustainability reports and disclosures. ESG Reporting

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[1] Palak Shah, 'Age diversity in boards only theoretical, rues ex-SEBI chief' (2021) The Hindu Business Line, < https://www.thehindubusinessline.com/news/age-diversity-in-boards-only-theoretical-rues-ex-sebi-chief/article34021989.ece> accessed 10 May 2023.

is beyond the traditional reporting and compliances by companies which used to be only on the basis of financial factors, instead ESG, in essence, recognizes the financial impact and importance of even non-financial factors which have an impact on the businesses in several ways. ESG Reporting has been gaining more eminence because it incorporates the abstract concept of sustainability by recognizing three concrete pillars for evaluation and decision-making, i.e., environmental, social, and governance. In India, the 'business responsibility reporting' is used which is being updated to mirror the ESG Reporting.

UNDERSTANDING ESG AND ESG REPORTING

Environmental, social, and governance (ESG) is essentially a set of criteria or standards focusing on the actions of a corporate that investors who are mindful of society's environment and finances use for accessing potential investments. It is a type of reporting standard which is used for corporate governance measures as well as for investment criteria.

The advent of ESG started in the early 2000s when a paper titled *"Who Connecting Financial Markets to a Changing World"*[2], was published which emphasized the evolving ESG problems and made numerous commendations, which included

- "*(I)* financial institutions should commit to integrating environmental, social, and governance factors in a more systematic way in research and investment processes, *(ii)* the companies a leadership role by implementing environmental, social and corporate governance principles and policies and to provide information and reports on related performance in a more consistent and standardized format, and *(iii)* investors shall explicitly request and reward research that includes environmental, social and governance aspects and to reward well-managed companies." Along with these, the report stated that ESG should not only be used as a measure of risk management, but also as a budding source of competitive advantage.

However most institutional investors believed that environmental, social and governance (ESG) issues were not relevant to portfolio value or corporate governance, and were therefore not consistent with their fiduciary duties but it was after the report titled "*Fiduciary Duty in the 21st Century*'[3] issued by UN agencies and Principles of Responsible Investing, it was clarified that

[2] The Global Compact, *Who Cares Wins: Connecting Financial Markets to a changing world*, (UN, 2004).
[3] 'Fiduciary Duty in the 21st Century', UN, <https://www.unepfi.org/investment/history/fiduciary-duty/#:~:text=Fiduciary%20duties%20exist%20to%20ensure,than%20serving%20their%20own%20interests. > accessed 10 May 2023.

the failure to consider long-term investment value drivers, which include environmental, social and governance (ESG) issues, in investment practice is a failure of fiduciary duty.

THE MAIN PILLARS OF ESG

ESG, as stated above, has 3 pillars - Environmental, Social and Governance and each one of them consists of several distinct parameters which are considered for ESG analysis and reporting. *The E-Environmental* criteria are focused on the company's action towards sustainable development, resource usage, its impact on the climate, its liability towards the environment, creating eco-friendly products, carbon emissions greenhouse emissions, reduction in discharge of pollutants along with other aspects of the environment such as waste reduction and management or biodiversity maintenance, etc. The S-Social criteria are focused on the company's actions towards value creation for society through its workplace and workforce policies such as human rights guarantee, safe and healthy workplace, personnel development and training, labor management, welfare benefits values chain of communities, gender equity and equality, diversity of the workforce and the stakeholders and customers relationships and interactions. This also includes other social factors such as data and product privacy and safety, disclosures on products, social impact complaints, and queries and CSR are also a part of this. The *G- Governance* criteria is focused on corporate governance aspects of a company such as its corporate structures and behavior like executive pay. anti-bribery and corruption policies, business ethics, anti-competitive behavior, tax transparency, reporting, financial and operational risks, audits, stakeholder's engagements, internal controls, and most of all the conduct of board and management.

Hence to summarize it can be said that the Environment criteria are focused on the impact on nature as a whole, the Social criterion is focused on relationship management with employees, suppliers, customers, and the communities while the Governance criteria are focused on the company's leadership and governance aspects. All these pillars are intertwined and they cannot function without each other.

HOW ESG REPORTING IS USED?

The ESG Reporting is used as a tool for guiding investors be they institutional or individuals as well as other stakeholders who use these criteria of reporting standards for making an investment, finance, or policy decisions by following the ESG Ratings given by various ESG rating agencies.[4]

[4] R. Boffo and R. Patalano 'ESG Investing: Practices, Progress and Challenges' (2020) OECD Paris, <www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf > accessed 10 May 2023.

The ESG Reporting standards give a clear understanding of the present as well as the future environmental, social, and governance opportunities and risks for the corporates and companies and help in analyzing the impact of these factors on each other and on the investments and corporate governance as they are a direct indicator of the financial impact of the company due to these factors.

However, in spite of the wide benefits ESG reporting offers to the corporate governance norms, it has not been made mandatory by all the countries and most of the compliances are voluntary and the ESG Rating done by the agencies is not mandatory anywhere in the world. But still, recently there has been a rise in voluntary acceptance of ESG reporting by several investors and firms along with various organizations such as the OECD. Even Global Reporting Initiative (GRI) has framed numerous ideals for sustainability reporting.

Therefore, it can be observed that in recent times ESG reporting has escalated and now is an integral part of analyzing corporate governance in companies and making a socially responsible investment.

ESG REPORTING IN INDIA

The presence of ESG Reporting in India can be traced to the Kotak Committee Recommendations on Corporate Governance in which it was explicitly stated that, "Aspects *like* .... *ESG (environment, sustainability, and governance) are critical to the medium-term and long-term future of a listed entity. Committee recommended that, at least once a year the said aspects should be specifically discussed by the board.*"

The advent of ESG in India began in early 2009 when the Ministry of Corporate Affairs (MCA) released voluntary guidelines on CSR which were followed by the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business'20 (NVG) issued by MCA in 2011 which emphasized that companies should instead of being only responsible, should also focus on being socially, economically and environmentally responsible as it is through such reporting, that companies will get an understanding of their operations in a better way. The guidelines postulated that the companies should follow these principles in conducting themselves -

1. To use Ethical, Transparent, and Accountable ways to govern themselves
2. To focus on sustainability and safety in their goods and services.
3. To foster mutual respect and well-being between employees and the workforce

4. To be respectful and responsible towards the stakeholders
5. To uphold and promote human rights,
6. To protect, respect, and restore the environment,
7. To be transparent and responsible in dealing with public and regulatory policy.
8. To endorse all-encompassing progress and equitable development, and
9. To participate with consumers by providing them value in a responsible manner.

These 9 principles guided the creation of BRR or Business Responsibility Report in India in 2012 which is said to be an Indian legislative attempt of the ESG Reporting model and comes closest to ESG perspective reporting. The BRR was the first non-financial reporting made mandatory in India which was a policy adoption for ratifying India's position towards "United Nations Guiding Principles on Business & Human Rights (UNGPs) and Sustainable Development Goals." The Securities and Exchange Board of India (SEBI), in 2012, through its listing conditions mandated the top 100 listed entities by market capitalization to file BRR from ESG perspective which was then extended to the top 500 companies in FY 2015-16.[5] The coverage has been extended to 1000 companies now. And now at present in 2020 MCA issued "Report of the Committee on the Business Responsibility Reporting," and the Securities and Exchange Board of India (SEBI) issued a Consultation Paper[9] suggesting that Business Responsibility Report BRR should be replaced by Business Responsibility and Sustainability Reporting (BRSR) And **SEBI** introduced this new reporting format, the Business Responsibility and Sustainability Report ("**BRSR**"), on May 10, 2021, "thereby replacing BRR by BRSR for enabling more ESG parameters in reporting standards and for focusing on sustainability along with business responsibility". BRSR reporting has been made voluntary for FY 2021-22 but will be mandatory from FY 2022-23**.** Also, since BRSR is mandatory only for listed companies presently, a voluntary disclosure for unlisted companies has also been made in the form of "BRSR Lite".

THE BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORT:

The BRSR is a benchmark for disclosures based on international ESG parameters and broadly focuses on general management and also performance disclosures. BRSR also acts as a risk

[5] Ministry of Corporate Affairs, 'Report of the Committee on Business Responsibility Reporting' (2020) Government of India < https://www.mca.gov.in/Ministry/pdf/BRR_11082020.pdf> accessed 10 May 2023.

management system helping to preserve the interests of stakeholders and has been recognized by SEBI's Integrated Reporting initiatives as a material factor of corporate governance. It is a first step towards using non-financial but quantifiable ESG parameters for regulatory disclosures and corporate governance.

For environmental disclosures under BRSR, some of the parameters set up by SEBI include resource usage, the emission of greenhouse gases and air pollutants, waste management, energy, and water consumption, and the overall impact on biodiversity, while social disclosures include the social security of the stakeholders dealing with the company, gender and social diversity in the work-space,[6] disclosures related to the consumer awareness and redressal and also the Social Impact Assessments and CSRs and governance disclosures include overall practices of the board towards sustainability along with various other standards required by other regulatory authorities.

The key governance-related disclosures under the BRSR are:

1. **GRIEVANCE REDRESSAL MECHANISM FOR STAKEHOLDERS-** the role of grievance redressal mechanism is to resolve any concerns or matters raised by the stakeholders which include not only shareholders or employees or customers but also communities, value chain members and other business partners, regulators, civil society, and many others connected with the company. This is used to reduce the legal cases of the company by resolving disputes and issues without judicial involvement and making companies more responsive to their environment.

   Under the BRSR, adequate disclosures have to be made regarding the grievance redressal mechanism adopted by the company for each stakeholder along with detailed data on total complains received, a number of cases resolved or pending.

2. **BUSINESS RESPONSIBILITY STATEMENT-** The BRSR requires that statements on business responsibility should be made by the directors who shall highlight the ESG challenges, opportunities, strengths, and weaknesses along with targets and achievements. It should be due diligence on ESG matters by the Board.

3. **ETHICAL, TRANSPARENT AND ACCOUNTABLE CONDUCT-** The BRSR mandates companies and corporates for conducting & governing themselves with

[6] Dr. Sairam Bhat and Mr. Rohith Kamath, ' Business, Environment and Sustainability Reporting in India' (2021) NLS Publication <https://ceerapub.nls.ac.in/business-environment-and-sustainability-reporting-in-india-a-note-on-the-sebi-guideline/ > accessed 10 May 2023.

integrity and in an ethical, transparent, and accountable manner. For this they are required to disclose the following in their reports:

1. The various fines and penalties levied, punishments awarded or settlement amounts paid in proceedings by the companies themselves or by its directors, auditors, and other key managerial personnel to regulatory authorities or the judiciary and this has to be as per the materiality policy specified under Regulation 30 of LODR Regulations.

2. The disclosures have to be made regarding the anti-corruption policy, internal checks, and measures for dealing with such complaints on bribery, and also such disclosure has to be made on the company's website.

3. Disclosures with regards to related party transactions or issues of conflict of interest of the directors or other key managerial personnel such as disclosure of the nature of interest directly or indirectly of the KMP or directors.

All these disclosures are required because the directors and key managerial personnel play a crucial role in the administration and governance of the company hence these disclosures will help in more transparent behavior by the company and thereby would help increase trust in the company's internal controls and management.

ESG REPORTING AROUND THE WORLD

At present most countries have adopted the ESG Reporting standards in some form and these new reporting standards are advocating sustainability. Even though the reporting base of ESG remains constant, countries have different methods and theories for their reporting mechanisms. Some of the ESG reporting formats followed by different countries are:

1. **European Union**: "The European Commission Directive on Disclosure of Non-Financial and Diversity Information (2013)" is one of the main reporting guidelines which mandates disclosures of various environmental, social, and employee-related matters by the businesses for public interest.[7] These also take into consideration various other due diligence requirements for sustainability. The EU has incorporated various ESG parameters for meeting the requirements and preferences of various stakeholders

[7] Nora Hahnkamper-Vandenbulcke, 'Non-financial Reporting Directive' [2021] ERPS 8.

and thereby making the disclosures clear and comprehensive. Thus, the EU has taken a great early step in the ESG disclosures and it will be beneficial in the long run.

2. **United States**: In the US regulations and laws on disclosures are made by the US Securities and Exchange Commission (SEC) which has with regards to ESG reporting on 3rd March 2021 updated its disclosure parameters for all listed companies and has included climate change and ESG risks. These new changes are focusing on sustainable risk management associated with the dynamic environment. However, these disclosures are not mandatory until and unless they are very material to the company but even if the businesses voluntarily disclose ESG and it is found to be misleading then penal provisions of securities law. Hence, currently, ESG Reporting in the US is at present wholly voluntary with an aim to make the companies sustainable for themselves.

CONCLUSION AND SUGGESTIONS

From the 20th-century financial crisis to the ongoing COVID-19 pandemic, corporates have faced various risks and challenges and that has changed the way of corporate governance. The stakeholders and investors now consider all risks be the environmental, social, or financial before making any decision or investments and this is what has given rise to the ESG reporting standards as a new guide towards sustainable reporting at a global level which acts as a tool of compliance standards.

In India, the BRSR is currently applicable as a close replica or substitute of ESG reporting standards and tries to be representative of global principles and tries to give a holistic view of the same.[8] However, India through SEBI-regulated BRSR is still in need of development and growth as even after more radical changes in the parameters, the BRSR contains selective grounds which tend to be generic in nature and also is applied only to the top 1000 listed entities on a stock exchange which is also not sector friendly, i.e. not adaptable to companies belonging to different sectors since different sectors require different disclosure requirements.

Hence, the need of the hour is to first move towards mandatory ESG disclosures by not only the top 1000 listed entities but by all publicly listed entities as it will increase the transparency of companies in their conduct, will act as a safeguard to stakeholders and also be a guiding force for investors. Secondly, a few structural changes should be made to facilitate better reporting such as

[8] Business Responsibility and Sustainability Report, 'An attempt to mainstream ESG' (2021) PWC < https://www.pwc.in/assets/pdfs/consulting/esg/business-responsibility-and-sustainability-report.pdf> accessed 10 May 2023.

making a few standards and parameters applicable to different sectors to suit the specific requirements so that better compliances are done by companies.

India has taken the first and most important step towards ESG Reporting standards by making it mandatory for the top 1000 listed entities. The BRSR reporting is a comprehensive guide towards disclosures with respect to global standards and is a great step towards corporate governance. However, despite the challenges and gaps BRSR Reporting is a key to the concept of corporate governance and with the growth of corporate disclosures, it will be the golden key for managerial control and good governance in companies.