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ENVIRONMENTAL SOCIAL AND GOVERNANCE REPORTING IN INDIAN: AN OVERVIEW

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ABSTRACT

The Environmental, Social and Governance (ESG) Reporting Guidelines are institutional rules that can improve the credibility of public information on ESG related to companies. Reporting is often voluntary, and global ESG report guidelines generally depend on process-oriented third-party verification. The purpose of this study is to study and analyse the environmental, social and governance (ESG) reporting framework in India and understanding its role, benefits and challenges. The study design will be a descriptive based on analysis of secondary data. It aims to analyse existing documents, reports and publications related to ESG reporting in different country. Our study suggest that companies need to follow ESG reporting for sustainable development and government should work on reducing regularity uncertainty.

INTRODUCTION

Environmental, social and governance (ESG) reporting is no longer considered a low-cost option. Organizations are increasingly focusing on ESG as they strive to maintain the integrity of their trust, commitment and obligations both within and across the extended business. For decades, investors have relied on consistent and open financial reporting requirements to gauge the success of companies, and now that scope is being expanded to include financial strategies. ESG strategy. Investors invest money in ESG investment vehicles and request detailed information about the company's governance, social and environmental practices.

The sustainability of investments and compliance with environmental, social and governance (ESG) principles are becoming increasingly important in investment decision making and investment appraisal. There is always a choice between direct profit maximization and profit maximization opportunities embedding ESG in these types of investments. Since the beginning of the 21st century, ESG investment, also known as socially responsible investment, has experienced significant growth. The roots of ESG investment go back to 2004, with the United Nations (UN) at the forefront of early initiatives in this area.

Integrating ESG considerations into the business has the potential to achieve a sustainable competitive advantage while facilitating long-term risk management. It has been reported that companies that integrate ESG have achieved higher profits than companies that do not integrate ESG. While a focus on financial investments can produce quick returns, for decades investors have relied on consistent and publicly available financial reporting requirements to gauge how well they are doing. business success. Along with the change in time, the scope expands to include environmental, social and governance (ESG) strategies. Organizations are increasingly focused on (ESG) as they strive to maintain the integrity of their trust, commitment, and obligations both within and across the extended business. ESG reporting is no longer considered a low-cost option. Investors invest money in ESG investment vehicles and request detailed information about the company's governance, social and environmental practices. Therefore, it becomes imperative to study and analyse the ESG reporting framework in India and compare it with global standards. The focus on ESG investment could be improved. long-term business sustainability. The three-point approach, which combines financial returns with environmental and social values, is often followed in such companies. While environmental and social concerns are necessary, it is also important to understand how they intersect with corporate governance.

LITERATURE REVIEW

ESG reports involve companies publicly disclosing their environmental, social and governance (ESG) impacts and are more widely known as "sustainability reports". Unlike financial statements, which are shaped by well-established accounting standards and required by publicly traded companies (World Economic Forum, 2020), reporting methods ESG is less clearly defined An ESG report is the formal publication and communication of a company's sustainability goals, which are more specifically recognized as environmental, social and governance goals and progress towards them. With more information at hand, external stakeholders are better equipped to assess a company's overall performance and shape their purchasing and investment decisions to reward sustainable companies. more (Rhodes, 2010; Sarti et al., 2018). This information can also affect stakeholder trust and improve a company's reputation (Lenox & Nash, 2003), while motivating companies to reduce their negative environmental and social impact. (Michelon et al., 2015). All these factors can improve business profitability (Darnall, Henriques & Sadorsky, 2008).

The MacKenzie quote shows how prominent environmental, social and governance (ESG) issues are in driving corporate performance and reporting (Adams, 2017). This change is significant, as more than half of respondents in a recent international survey agreed that "capitalism, as it exists today, does more harm than good in the world." world" (Edelman, 2020, p. 12). At the heart of this harm are ESG issues such as climate change and poverty, which the United Nations, through the Sustainable Development Goals, encourages everyone to take action, including businesses. (United Nations Development Program [UNDP], 2015). These problems are exacerbated by the impact of the COVID-19 crisis (Wood, 2020). In short, the world has changed dramatically and companies need to plan for potential ESG issues and respond to the need for comprehensive information on a company's ESG performance (Barker & Eccles, 2019).

Ironically, as MacKenzie points out, it is investors, i.e. shareholders, that are driving the need for additional ESG performance information to understand how companies fit into sustainability, i.e. "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Bruntland, 1987, p. 41). World investment, BlackRock, is shifting its investment strategy to focus on sustainability as investors now recognize "climate risk as investment risk" (Edelman, 2020; Fink, 2020). converted into assets and trapped resources, as a low-carbon economy renders some assets worthless or even turns them into debt (Bos & Gupta, 2019) As investors now need to understand better understand the link between climate change and climate change. Investment risk, demand for high-quality climate change and other ESG performance information is growing exponentially.

OBJECTIVE OF THE STUDY

1. To know how ESG reporting evolve in India.
2. To know Pillars of ESG reporting.
3. To understand role of ESG reporting.
4. To understand Challenges for ESG reporting in Indian context.
5. To know benefits of ESG reporting.

RESEARCH METHODOLOGY

The study design will be a descriptive based on analysis of secondary data. It aims to analyse existing documents, reports and publications related to ESG reporting in different sectors and companies. Qualitative data will be reviewed to gain a comprehensive understanding of the topic. Relevant information on ESG reporting practices, standards, challenges and opportunities will be extracted for analysis.

EVOLUTION OF ESG DISCLOSURES IN INDIA

The Companies Act of 2013 present 1st Environmental, social and governance disclosure requirements for companies. Section 134(m) requires companies to include energy performance management reports, as well as annual financial statements. This requirement is detailed in Rule 8(3)(A) of the 2014 Company Rules (Accounts), which requires the board to provide information related to energy savings.

In addition, companies are required to include information about opportunities, threats, risks and concerns in their annual reports under SEBI Regulation 34(3) (LODR Regulation) 2015. However, these disclosure requirements are not intended to collect details of the measures and processes used by companies to identify these opportunities or risks, nor do they require company disclose any information. The company tracks their progress over time.

In 2017, SEBI issued a circular on "Disclosure requirements for the issuance and listing of green debt securities", to introduce the legal framework for the issuance of green debt securities in India and strengthen public confidence. investor trust. It complements the Listing and Issuance of Debt Securities (SEBI) Regulations of 2008 and provides a list of information that an issuer must provide in its offering document before and after commencing a project. funded project. through green debt. These additional disclosure requirements have been established to call for funding for ESG-compliant projects, such as renewable and sustainable energy, clean transportation, sustainable water management, and climate change adaptation. climate change, energy efficiency, sustainable waste management, sustainable land use and biodiversity conservation.

In addition to this SEBI circular, the Indian Bankers Association (IBA) has also published the Voluntary National Guide to Responsible Finance, which lays out the general and fundamental principles of a "risk management" business strategy. integrated ESG risk" of financial institutions. (SI), decision-making and operations.' For example, Principle 2 states that financial institutions "should integrate analysis of environmental, social and governance factors into their investment, lending and risk management processes in all business activities to reduce risks and negative impacts on their own operations and on society. However, these guidelines do not envisage any framework for the reliable and transparent issuance of green debt instruments. ascending.

LAUNCH OF BRSR FRAMEWORK

To further strengthen India's ESG disclosure regime, SEBI has amended LODR Regulation 34(2)(f) to introduce the BRSR Framework in May 2021. This regulation will replace the business responsibility report. The BRSR is in line with the nine principles of the National Guidelines for Responsible Business Conduct ("NGGBC") and will require the top 1,000 listed companies to disclose ESG-related information each year beginning from the fiscal year 2022-2023.

In addition to introducing a relatively comprehensive disclosure framework, the BRSR covers the following aspects, with the aim of improving ESG claims business practices in India:

• Implement NGRBC principles to address ESG-related concerns;

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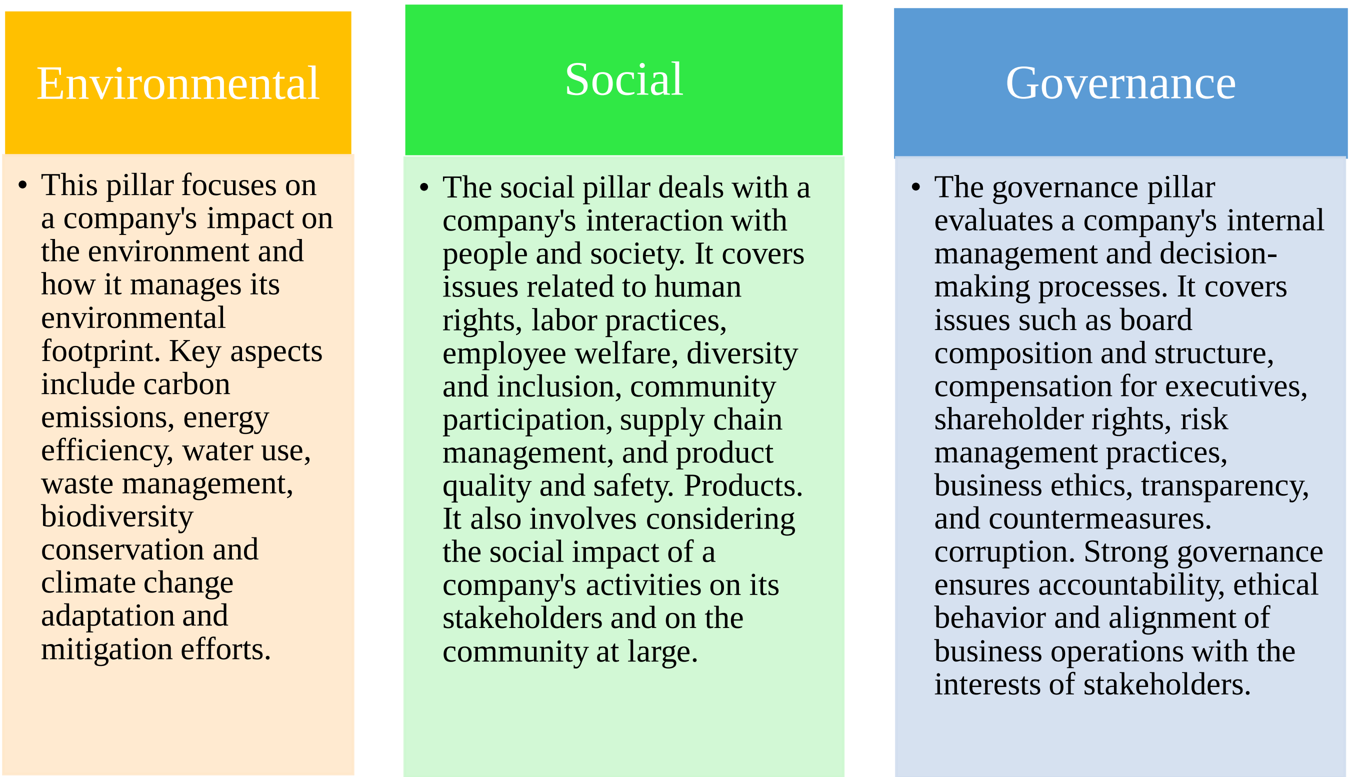
• Disclose the appropriate policies and mechanisms a company has in place to maintain ESG compliance. BRSR places considerable emphasis on quantifiable metrics to ensure comparability across industries, companies and time periods;
• Improved information on climate and social issues;
• Separate disclosure into essential indicators and leadership indicators, the first of which is mandatory. The leadership indicators, among others, also focus on value-chain-related information for eligible entities;
• The BRSR allows interaction with organizations that have published sustainability reports in other internationally recognized frameworks.

Pillars of ESG



ROLE OF ESG REPORTING

The ESG report plays an important role in promoting sustainable and responsible business practices by promoting transparency, responsibility and alignment with broader environmental, social and governance goals. Here's how the ESG reports contribute to these practices:

1. Transparency and Disclosure: ESG reports require companies to disclose their performance on various environmental, social and governance issues. This transparency helps stakeholders, including investors, customers, employees and communities, gain an understanding of the company's sustainability efforts, impacts and progress.

2. Risk management: ESG reporting allows companies to assess and manage risks associated with ESG. By identifying potential environmental, social or governance risks, companies can develop proactive measures to mitigate these risks, improve their resilience and safeguard their long-term sustainability.

3. Long-term value creation: highlighting sustainability through ESG reporting can lead to long-term value creation for enterprises. Sustainable practices such as resource efficiency, employee well-being and ethical governance can improve the company's reputation and strengthen relationships with stakeholders, ultimately contributing to sustainable growth.

4. Investment Decision-making: ESG reports provide investors with important information to evaluate company sustainability performance. Investors are increasingly considering ESG factors in their decision-making processes, looking for companies with responsible practices and long-term vision.

5. Compliance with regulation and mitigation of legal risks: ESG reports may be compulsory in some jurisdictions. Compliance with the ESG reporting requirements helps companies stay ahead of potential legal risks and regulatory changes related to sustainability issues.

6. Reputation and Branding: Transparent ESG reports build trust with stakeholders and strengthen a company's reputation and brand image. Companies that are known for their commitment to sustainability and responsible practices are more likely to attract customers, talented employees and partnerships.

SIGNIFICANCE OF ESG REPORTING

ESG reporting can have a significant impact on corporate governance, stakeholder participation and long-term value creation for Indian companies. Let's examine each aspect in detail:

1. Corporate Governance

- Better transparency: ESG reports promote greater transparency by requiring companies to disclose their environmental, social and governance performance. This transparency promotes accountability and helps build trust between stakeholders, including shareholders, employees and regulators.

- Board supervision: ESG reports encourage board members to engage actively and supervise sustainability initiatives within the company. This participation ensures that ESG issues are integrated into strategic decision-making processes and aligns business objectives with sustainable practices.
- Risk Management: ESG Reporting helps companies identify and address important ESG risks. By incorporating these risks into corporate governance practices, the board can make informed decisions to mitigate potential negative impacts on the company's reputation and financial performance.

2. Stakeholder engagement

- informed decision making: ESG reports provide stakeholders with detailed information on company environmental, social and governance practices. This information empowers stakeholders to make informed decisions, such as investors considering sustainable investments and customers choosing socially responsible products.
- Dialogue and Collaboration: Through the ESG report, companies engage in meaningful dialogue with stakeholders, including investors, customers, employees and local communities. This commitment allows companies to understand the concerns and expectations of stakeholders, resulting in better customized sustainable strategies and greater stakeholder support.
- Building trust and reputation: transparent reporting on ESG helps to build trust with stakeholders. Companies that demonstrate commitment to responsible practices and transparent reporting improve their reputation and positively influence brand image and customer loyalty.

3. Long-term value creation

- Risk mitigation: Effective ESG reporting allows companies to identify and manage ESG-related risks that can have a long-term impact on their financial performance. Companies can mitigate risks associated with issues such as climate change, resource shortages or labour practices and secure long-term value.
- Sustainable business models: ESG reports encourage companies to develop sustainable business models that take into account environmental and social factors. The integration of sustainability into their core operations can increase efficiency, reduce costs, and create long-term value by attracting a wider customer base.
- Adapting to changing business landscape: The world is witnessing a shift towards sustainable markets and regulations. Companies that adopt ESG reports and practices are better positioned to adapt to changing environmental and social expectations and achieve long-term success.

POTENTIAL ADVANTAGES OF REPORTING ON ESG

1. Responsible investors: ESG reporting helps Indian companies attract responsible investors who place sustainability and long-term value creation at the forefront. Investors are increasingly taking into account environmental, social and governance factors as well as financial performance when making investment decisions. Companies with strong ESG performance are more likely to attract a broader group of investors who are looking to align their investments with sustainability objectives.

2. Strengthening brand reputation: Transparent ESG reporting shows company commitment to sustainability and responsible business practices. This can improve the brand reputation of the company and build trust among customers, employees and other stakeholders. A positive brand reputation can lead to greater loyalty to clients and better relationships with stakeholders.

3. Improve access to capital: Companies that provide priority to ESG reporting and sustainability are perceived by investors and lenders as a lower risk. This may improve access to capital at potentially lower costs. Sustainable business practices demonstrate that companies effectively manage risks and are strategically positioned for long-term success, which makes them more attractive to financial institutions.

4. Cost savings and efficiency: The implementation of sustainable practices can lead to cost savings and operational efficiency for Indian enterprises. For example, energy efficiency measures can reduce supply costs, waste reduction initiatives can reduce disposal costs and responsible supply chain management can improve resource allocation.

5. Employee Engagement and Retention: Companies with strong ESG focus often have higher employee engagement and retention rates. Employees are more likely to feel proud to work for a socially and environmentally responsible organization, which leads to increased productivity and loyalty.

6.Improved risk management: Companies can better identify potential vulnerabilities by addressing environmental and social risks through ESG reports and develop risk mitigation strategies. This proactive approach to risk management strengthens the company's resilience to uncertainty.

Challenges faced by Indian companies in adopting ESG reporting practices:

1. Lack of awareness and education: Many Indian companies lack awareness and understanding of ESG reporting and its benefits. The concept of responsible and sustainable business practices may be relatively new to some organizations, leading to reluctance to undertake ESG reporting.

2. Regulatory uncertainty: Although India has made progress in introducing some ESG reporting requirements, there is still regulatory uncertainty regarding the scope and specific guidelines for ESG disclosure. Companies may not know what information to report and how to comply with changing regulations.

3. Cultural thinking: Traditional business practices in India may prioritize economic growth over sustainability considerations. Changing this cultural mindset to embrace ESG principles and long-term sustainability can be a daunting challenge.

4. Organizational arrangement: In some cases, companies may experience internal resistance or lack of alignment between different departments or divisions regarding the importance of ESG reporting and its integration into business strategy

5. Lack of uniform standards: One of the main barriers is the lack of standardized ESG reporting frameworks and guidelines. Different regulators may have different requirements, making it difficult for companies to consistently report on their ESG performance. The lack of a consistent reporting structure can lead to confusion and hinder comparability across companies.

6. Restrictions and sanctions enforcement: Even with ESG reporting requirements in place, the lack of rigorous enforcement and substantial penalties for non-compliance can reduce companies' incentive to prioritize disclosure. overview. Without adequate enforcement measures, some companies may choose to avoid or provide incomplete ESG information.

7. Legal risks and disputes: Comprehensive ESG disclosure can expose companies to legal risk, especially if the information disclosed is deemed misleading or inaccurate. Potential lawsuits or legal action due to incomplete or misleading ESG disclosure may prevent some companies from providing comprehensive reporting.

CONCLUSION

ESG reporting strengthens corporate governance by promoting transparency and risk management. It strengthens the involvement of stakeholders by promoting dialogue and trust. In addition, it contributes to the long-term creation of value by reducing risks, attracting responsible investors and promoting sustainable business practices. For Indian companies, adopting ESG reports can have a positive impact on their performance, reputation and sustainability in an increasingly evolving global business landscape.

Our analysis shows that we need more research aimed at consumers, investors and policy makers. Future researchers could explore how changes in consumer preferences contribute to improvements in ESG performance and how changes in capital market allocations affect ESG performance

Overall, ESG reports are a catalyst for the integration of sustainability into business strategies and operations and help companies move towards more sustainable and responsible practices that benefit both their bottom line and the wider society and the environment.

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