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INDIA'S ESG REPORTING LANDSCAPE: DIVERSE APPROACHES AND INSTITUTIONAL FRAMEWORKS

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ABSTRACT

Environmental, Social, and Governance (ESG) reporting has become crucial to corporate sustainability and responsible investing worldwide. In response to substantial investor pressure for nonfinancial companies to enhance standardized disclosure, commercial businesses worldwide are transitioning from the short-term, myopic objective of profit maximization towards long-term sustainability goals, i.e., environmental, social, and corporate governance (ESG). This study examines the evolution and importance of ESG regulatory frameworks in India. According to the data, India improved in the ESG rankings. Furthermore, sustainability reporting and integrated reporting practices must be addressed to improve ESG practices. This research paper also examines India's ESG reporting landscape, analyzing the diverse approaches adopted by companies and the institutional frameworks that govern and promote ESG reporting practices. The study highlights the drivers behind the growing importance of ESG reporting in India and evaluates its impact on businesses, investors, and society. Through a comprehensive review of the literature, this paper sheds light on the progress made by India in integrating ESG factors into corporate decision-making. It identifies areas that require further development to strengthen the nation's sustainable and responsible investment ecosystem.

KEYWORDS

BSBR, ESG practice, corporate governance, sustainability reporting, sustainability goals.

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INTRODUCTION

A company's corporate governance, social responsibility, and environmental sustainability performance are evaluated using the Environmental, Social, and Governance (ESG) framework. The idea is becoming increasingly common since investors and stakeholders value sustainable and ethical business practices. India has become more aware of environmental issues, governmental reforms, and investor expectations, which has led to an increase in the adoption of ESG principles. The focus of commercial enterprises worldwide is shifting from short-term profit maximization to long-term sustainability objectives, including ESG objectives. ESG concerns are increasingly seen as being a danger to organizations and having the potential to have an impact on their ability to succeed financially. It has grown significantly crucial for academics and professionals due to a better grasp of the ESG business case and a change in corporate focus to these non-financial criteria. Although the Indian economy is expanding, social and environmental issues might impede growth and stability. Indian businesses have expanded overseas in order to raise capital. Transparency and ESG performance are crucial for international investors and consumers. For Indian businesses to draw foreign investors, they must improve their ESG risk management.

According to the Business for Social Responsibility Report (2014), there are three million NGOs in India; most of these organizations do not believe that corporations have negative externalities and want the government to mandate ethical ESG practices and the disclosure of ESG/sustainability performance. The top 100 listed businesses on the BSE and NSE were required to begin publishing business responsibility reports on December 31, 2012, in response to these challenges and changes in the global business climate. In the end, other businesses will adhere to these rules. These new regulations and initiatives could motivate Indian businesses to thrive in ESG. This issue has become urgent in India due to these developments.

RESEARCH OBJECTIVES

This objectives of the research are as per following:

1. Examine the current state of ESG reporting practices among Indian companies.
2. Analyse the diverse approaches taken by companies in disclosing ESG-related information.
3. Evaluate the institutional frameworks, guidelines, and regulations governing ESG reporting in India.
4. Identify the drivers and challenges of ESG reporting adoption in the Indian context.
5. Assess the impact of ESG reporting on businesses, investors, and society in India.

RESEARCH METHODOLOGY

- **RESEARCH OBJECTIVE**

The primary objective of this theoretical research paper is to comprehensively analyse India's ESG reporting landscape, focusing on the diverse approaches adopted by companies and the institutional frameworks governing ESG reporting practices. The study aims to provide an in-depth understanding of the drivers behind the increasing importance of ESG reporting in India and its impact on businesses, investors, and society.

- **RESEARCH APPROACH**

Given the nature of this theoretical research paper, the research approach will predominantly be based on a comprehensive literature review. The study will gather and critically analyse existing academic articles, reports, government publications, regulatory guidelines, and other relevant sources to synthesize and interpret the information related to India's ESG reporting landscape.

- **SECONDARY DATA COLLECTION**

a) Literature Review: Relevant academic articles, reports, publications, and regulatory guidelines related to ESG reporting in India will be extensively reviewed. This will provide a foundation for understanding the country's historical context, regulatory landscape, and prevailing approaches to ESG reporting.

b) ESG Reports: Publicly available ESG reports and disclosures of Indian companies will be collected from various sources, such as company websites, stock exchanges, and databases. These reports will provide insights into the ESG performance and reporting practices of Indian companies across different sectors.

LITERATURE REVIEW

India's corporate sector has witnessed a significant shift towards embracing Environmental, Social, and Governance (ESG) reporting as a critical component of their business strategy and stakeholder communication. This literature review aims to provide an overview of existing research and literature on India's ESG reporting landscape, focusing on the diverse approaches taken by companies and the institutional frameworks governing ESG reporting practices. The review explores the historical development, regulatory environment, ESG reporting frameworks, and the impact of ESG reporting on India's businesses, investors, and society.

- **HISTORICAL DEVELOPMENT OF ESG REPORTING IN INDIA**

The historical evolution of ESG reporting in India reflects a gradual transformation from voluntary initiatives to regulatory interventions. Studies by Krishnan et al. (2019) and Gupta et al. (2020) highlight the early efforts of some pioneering Indian companies in voluntarily disclosing sustainability information. The review explores the factors that catalysed the transition towards a more structured and mandatory ESG reporting landscape, including growing investor interest in responsible investing, global sustainability commitments, and increasing stakeholder demands for transparency and accountability.

- **ESG REPORTING FRAMEWORKS AND GUIDELINES**

The literature review examines the adoption of ESG reporting frameworks in India, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Integrated Reporting (<IR>). Studies by Chatterjee et al. (2018) and Sharma and Sharma (2021) discuss the benefits and challenges of different frameworks and how Indian companies customize them to suit their unique requirements. Additionally, the review sheds light on the emergence of industry-specific guidelines and initiatives, such as the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business, which influence ESG reporting practices in specific sectors.

- **INSTITUTIONAL FRAMEWORKS AND REGULATORY ENVIRONMENT**

This section of the literature review delves into the role of regulatory bodies in shaping India's ESG reporting landscape. Research by Rao and Taneja (2019) and Shah and Shukla (2020) assess the contributions of the Securities and Exchange Board of India (SEBI) and other regulatory agencies in issuing guidelines and mandates related to ESG reporting. The review also analyzes the effectiveness of the Companies Act 2013, which includes provisions on mandatory CSR spending and ESG disclosures for large companies.

- **DIVERSE APPROACHES TO ESG REPORTING IN INDIA**

The literature review highlights the diverse approaches taken by Indian companies in ESG reporting. Case studies and analyses by Mathur et al. (2019) and Mehra and Gupta (2021) showcase how industries prioritize ESG issues based on their unique environmental and social impacts. The review also discusses variations in reporting practices among large corporations and Small and Medium Enterprises (SMEs) and how digitalization and sustainability reporting software has facilitated ESG disclosure processes.

- **IMPACT OF ESG REPORTING IN INDIA**

This section examines the impact of ESG reporting on various stakeholders in India. Research by Narayanan and Sharma (2020) and Rajagopal et al. (2022) explores how ESG reporting influences investment decisions, portfolio performance, and shareholder activism. The review also assesses the correlation between ESG performance and the financial performance of Indian companies and how ESG reporting contributes to positive social and environmental outcomes.

ESG PARADIGM IN INDIA: REGULATORY FRAMEWORKS AND SHIFTING TRENDS

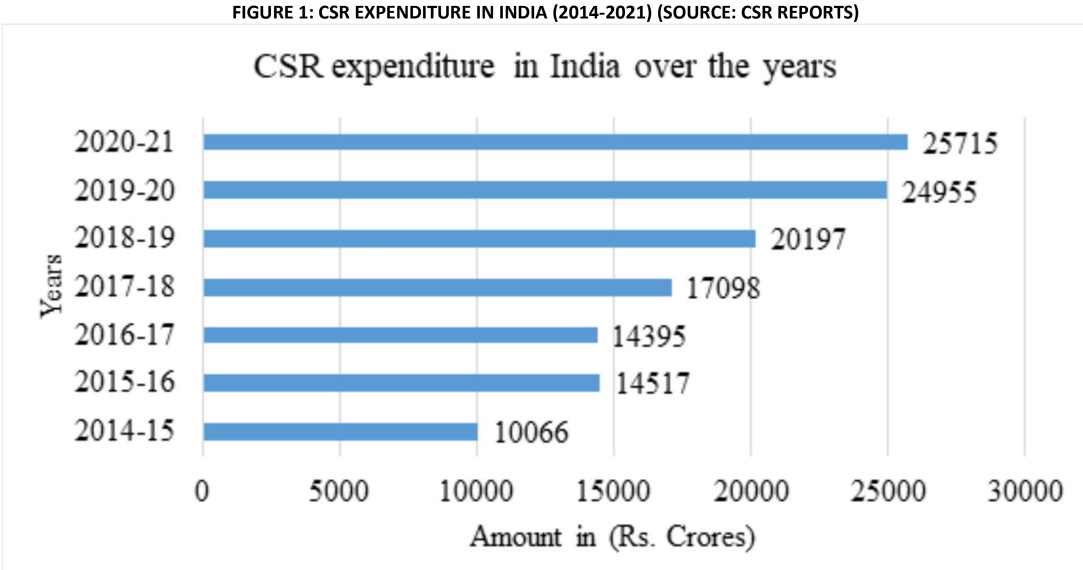
- **RISING ENVIRONMENTAL CONCERNS: URGENT CALLS FOR ACTION IN INDIA**

Due to the green revolution and rising urban development in the 1960s and 1970s, India has suffered from various environmental challenges, including deteriorating soil eminence, resource exploitation, and a decline in forest cover. The Ministry of Environment and Forests was established in 1980 to address these concerns. The Air (Prevention and Regulation of Pollution) Act of 1981 was designed to prevent and control emissions in India. In contrast, the Environment Protection Act 1986 focused on policy implementation emerging from the United Nations Human Environment Conference (1972).

- **FRAMEWORK FOR GOVERNANCE AND ESG ISSUES**

The CSR voluntary guidelines, which were issued by the Ministry of Corporate Affairs in 2009, provided suggestions and components essential for the creation of the policy of CSR for business—Stakeholder-driven 2011 national corporate obligations to the economy, society, and environment proposals. According to the updated Companies Act (2013), the board must approve a corporate CSR investment of Rs. 5 billion ($67.36 million) to justify why it is not allocating at least 2% of its annual revenue to such endeavors. In 2015, the SEBI released publicly traded firms' listing criteria and disclosure guidelines. This included disclosure requirements and norms, with enough information supplied to significant investors and stock markets while conforming to firm governance regulations and timely financial information delivered to investors. According to the SEBI, the top 500 listed companies must follow integrated corporate governance (CG). Due to these reporting standards, India is now the world leader in CSR reporting.

FIGURE 1: CSR EXPENDITURE IN INDIA (2014-2021) (SOURCE: CSR REPORTS)



The private sector has dominated other ESG initiatives in India. Without making any investments in the oil, gas, or thermal coal industries, Avendus Capital formed the country's first ESG fund. It collaborated with Institutional Investor Advisory Services (IIAS) to create a ranking system that took ESG principles into account. Additionally, the three executives from the Tata Group and Quantum Advisors formed ECube (a billion-dollar fund) in 2018, intending to invest 30 to 50 million dollars for an 8 to 9 percent stake in small- to mid-sized businesses. India scored well, placing third in the Asia Pacific for the rate of sustainability reporting.

However, as of 2017, the rate was 99%, and by 2020, it is predicted to be 98%. With a significant increase from 5% in 2017 to 28% in 2020, integrated reporting in India has seen significant development (KPMG, 2020). The COVID-19 epidemic underscored how critical it is to boost sustainability. 19% of the regions met the PM10 WHO air quality guideline values, demonstrating that there is still significant room for improvement in Indian air quality (Singhania & Saini, 2023). In order to fulfill India's commitment to the SDGs declared at the UN Sustainable Development Summit in 2015, the green hydrogen mission was included in the union budget of India for 2021 in order to decarbonize heavy industries and establish 450 GW (renewable energy).

TABLE 1: KEY MILESTONES IN INDIA'S ESG JOURNEY

Environmental	Social & Governance	ESG
1960 - Green evolution	**2009-** Corporate Social Responsibility Voluntary Guidelines	**2017** - Integrated Reporting rule by SEBI
1980- Ministry of Environment & Forest	**2011-** National Voluntary Guidelines on Socio-Economic and Environmental	**2019** - Amendment to Integrated Reporting
1981- Air (prevention and control of pollution) Act	**2013-** Amended Companies Act	**2021-** Clean Hydrogen Mission
1986- Environment Protection Act	**2015-** Listing and Disclosure Requirement by SEBI	**2021-** RBI join climate change fight

FIGURE 2: SECTORS OF TOP 20 ESG SPENDING BY INDIAN COMPANIES

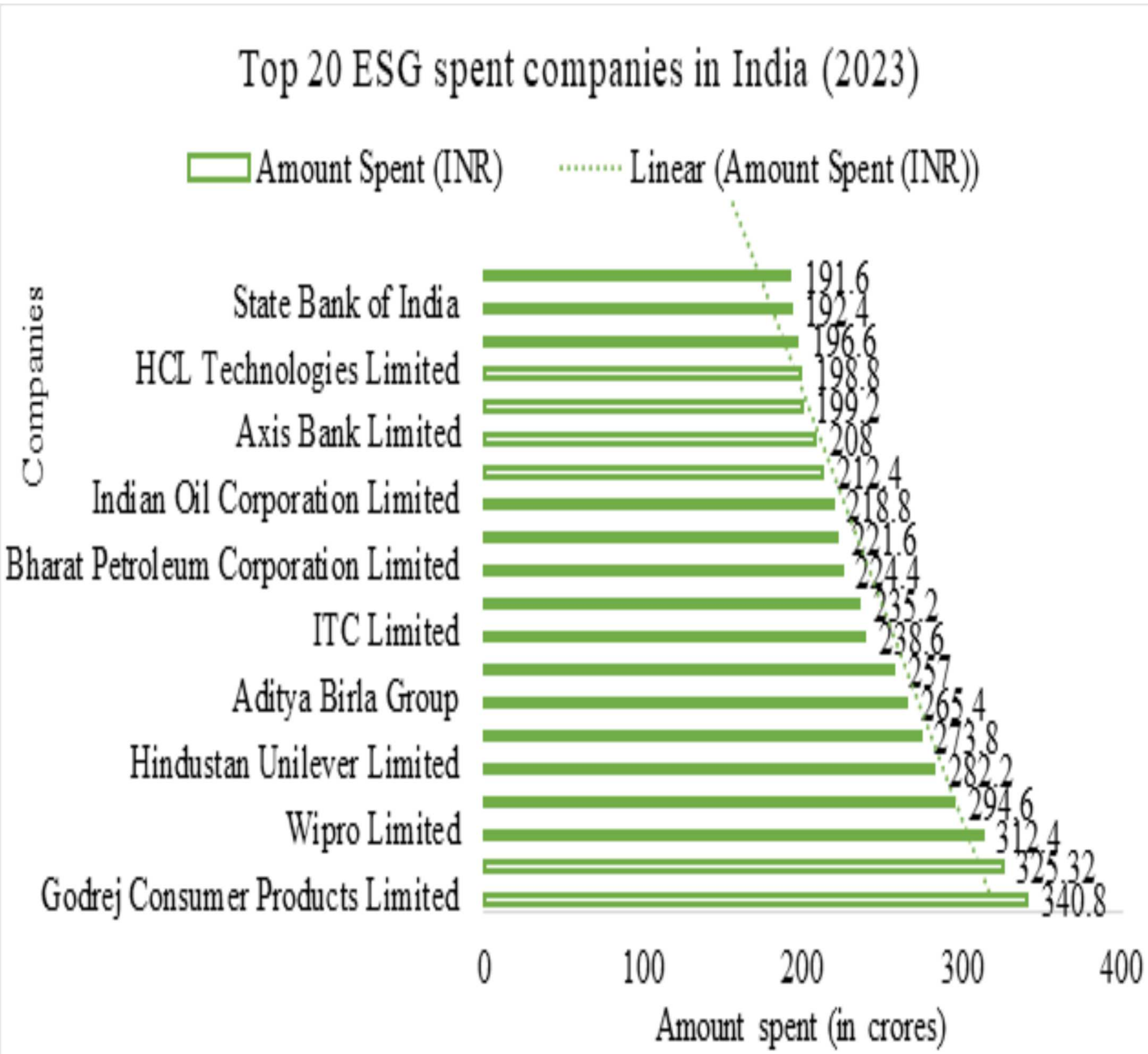
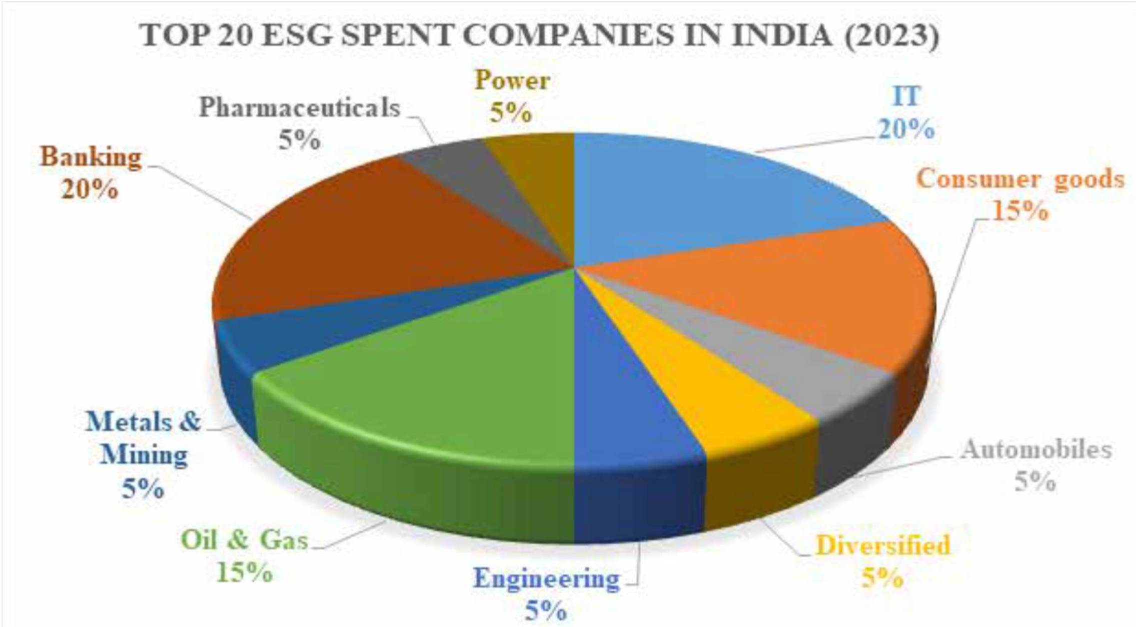


FIGURE 3: TOP 20 SECTORS COMPANIES (IN %) CONTRIBUTING THROUGH DIFFERENT SECTORS.



The information in Table 1 comes from the Ministry of Corporate Affairs, which requires all publicly listed firms in India to contribute at least 2% of their net profits to CSR initiatives. The amount invested in a CSR program reveals how committed a corporation is to ESG (environmental, social, and governance) norms. Godrej Consumer Products Ltd. & Wipro Ltd. are shown as the highest contributing firms in the ESG in Fig. 2. The top twenty ESG contributions in India are represented by corporations in the IT industry in Fig. 3.

ESG DISCLOSURE REQUIREMENTS FROM THE SEBI FOR INDIA

The World Economic Forum's (WEF) core metrics are closely related to the "BRSR core," proposed in India's new SEBI consultation reports.

The key performance indicators ("KPIs") for the environment, social well-being, and governance are adapted to India. E (change in greenhouse gas (GHG) footprint, which includes Scope 1 and 2 emissions and intensity; water footprint, which includes volume, intensity, and discharge; R&D (R&D expenses in reducing environmental footprint; circularity and waste management); S (employee well-being and safety; gender diversity; inclusive development); and G (fairness in engaging with stakeholders). The E core above shows that revenue and volume affect intensity ratios. To compare these ratios across countries, SEBI urges global investors and ESG rating providers (ERPs) to use economic value adjusted (EVA) for purchasing power parity (PPP). SEBI recommends first calculating and combining sectoral EVAs using the country-level PPP as a proxy.

According to the Economic Survey from 2023, Indian calculations attempt to embrace ERPs simplified by SEBI. Considering that the corporate responsibility and sustainability reporting (BRSR) framework is still in its infancy, it should be modified to align with the KPIs in the BRSR core in the consultation paper. Following the top 250 businesses in the fiscal year 2023–24, the top 500 listed corporations in 2024–25, and the top 1,000 listed companies in 2025–26, will all be obliged to offer a reasonable assurance on the BRSR core. The SEBI advises ESG-linked funds to invest "at least 65% of their AuM in companies reporting on comprehensive BRSR and assuring BRSR core disclosures" to avoid "greenwashing." The program's leftover funds should go to BRSR-reporting businesses.

As opposed to this, the consultation paper is unsure of what "reasonable assurance" entails. As "assurance," whether reasonable or not, cannot be substituted without auditing, and ESG-related effects cannot be audited until they are disclosed as balance-sheet line items (Serafeim et al., 2019). This knowledge is crucial for using ESG data and information to gain again.

- **INADEQUACY IN SUPPLY CHAIN DISCLOSURE**

Traceability is difficult because contractors use subcontractors in manufacturing networks that are distributed around the globe. Numerous textile workers died in Bangladesh's Tazneen and Rana garment factories due to social supply chain violations and a lack of checks.

In "E," specifically climate change, a corporation may quantify its GHG emissions footprint at three levels:

Scope 1 - Emissions produced in its facilities via owned vehicles, thus under direct control.

Scope 2 - Emissions from purchased electricity; and

Scope 3 - A significant portion of a company's carbon footprint may comprise all other upstream and downstream emissions, such as those produced in the supply chain, employee business travel, company vehicles, and Scope 3 emissions. However, tracking and measuring these emissions is challenging due to the supply chain's many layers and potential global dispersion.

Technologies like blockchain, artificial intelligence, sensors, and others are creating new ways to measure and track businesses' environmental impacts along the supply chain. However, measurement is not always accurate, comprehensive, transparent, or reliable. Since many supply-chain participants are unorganized small businesses, monitoring and reporting on ESG is difficult. With assurance not required initially, SEBI suggests a phased approach to ESG disclosures for the supply chains of India's top 250 listed companies (by market capitalization), with a "comply or explain" standard. SEBI is aware of tracking challenges. It is challenging, and authorities, businesses, and other supply-chain partners must cooperate to adapt. The first preliminary step is the SEBI suggestion.

The crucial issue of supply-chain resilience is strikingly ignored in discussions both internationally and in India. No metric or KPI relates to this in the WEF Stakeholder Capitalism Framework or the SEBI's BRSR core. Data on resilience-related KPIs is essential to assess a company's ability to successfully recover, adapt, and grow in the face of an unanticipated shock or stress, such as a pandemic or a natural disaster (Jovanovic et al., 2020).

THE ESG RATING DILEMMA

ESG rating (ESG-R) data from organizations can significantly impact non-financial performance. The ESG-R score of a corporation indicates its long-term exposure to ESG risks. High ESG ratings boost public perception, attract investors, and reduce capital costs (Nazir et al., 2021). In the 1980s, ESG-R was developed to advise moral investment. To achieve this aim, ESG rating providers (ERPs) must create multiple rating systems for different types of firms and places along the value chain within a particular industry (Venegas et al., 2011). In recent years, there has been an increase in the number of rating organizations. Each ratter has its approach to collecting and analyzing ESG data from corporations and other entities. Table 2 analyses the various reporting structures employed by widely used ERPs.

TABLE 2: ESG FRAMEWORKS USED BY VARIOUS ESG RATING PROVIDERS

ERP Agency	ESG Framework used by the ERP
Morgan Stanley Capital International	Sustainability Accounting Standard Board
Sustainalytics	Global Reporting initiative
Institutional Shareholder Services Environment and Social Quality	Carbon Disclosure Project
Rep Risk	Task Force on Climate-Related Financial Disclosure
Vigeo Eiris	UN Sustainable Development Goals
Financial Times Stock Exchange Russel	UN Principle of Responsible Investment

Furthermore, the SEBI gave 15 India-specific variables that examine changes in relevant laws and regulations in the country to fully recognize what should ideally be considered in the Indian context by ERPs to carry out ESG grading. The proposal explicitly says ESG grading must adhere to Indian laws, rules, and standards. This may motivate international ERPs to examine India's development challenges more comprehensively. Global ERPs would have to work harder to implement it, which may dissuade them. This information, however, is required to compare an Indian ERP to a comparable global ERP.

While the SEBI recommends a "core" ESG rating, it also states that such ratings "must necessarily be based on assured or verified data; however, ERPs may provide an additional commentary/outlook/observation on data that may not be verified/assured." For example, disputes that cannot be independently confirmed should not be factored towards the final ESG score. ERPs, on the other hand, have the option of offering their thoughts on the subject. Foreign ERPs frequently reduce the score when faced with arguments, whether proven or not. Both ratings were reduced following the Volkswagen emissions cheating scandal (Hotten, 2015) and the Boohoo supply chain labor abuse incident (FT, 2020). Several Adani Group firms were downgraded by MSCI (FT 2023) and Sustainalytics (Reuters, 2023) as a result of learning about the alleged governance breakdown (McGachey, 2023).

Even if they do not initially change their rating of a company based on unverified data, the accredited ERPs in India should make the most of this privilege because the corollary will give them additional protection by enabling them to add a reasonable comment if they so choose. In a business or group crisis that might have significant repercussions for a nation's economic and social well-being, ERPs should ideally be more proactive in exercising their freedom to speak out constructively instead of being silent. The SEBI's proposal, however, is somewhat limiting in two areas when defining the certification criteria for ERPs. To begin with, it implies that only research analysts and credit-rating agencies (CRAs) that have been appropriately registered with SEBI are eligible to become ERPs. Second, SEBI specifies the prerequisites for the certification of ERPs with a net worth of around '10 crore. In addition to net worth, the SEBI proposal expands the list of certification requirements by including expertise, sustainability, infrastructure, staff calibre, and technical proficiency.

The concept of ESG-R is more comprehensive and pervasive when compared to credit rating. A credit rating focuses mainly on analyzing a company's creditworthiness or capability to fulfil financial commitments, in contrast to the former, which examines a company's creditworthiness—its capacity to pay debt obligations. As a result, ERPs are anticipated to include all recognized players in the ESG sector and have a wider reach. By establishing a minimum net worth at that level, SEBI disqualifies small and medium-sized private participants from the certification procedure. It could be wise to re-evaluate the present net-worth requirement to expand the pool of possible members, at least initially.

Some of these individuals, who are now disqualified due to the net-worth limitations, could have a deeper understanding of the sector's key issues and, for instance, the atmosphere and background in a particular area. Unlike the enterprise risk management industry, credit rating is more prone to agency issues, conflicts of interest, and rating shopping since issuers, not investors, pay credit rating agencies (White, 2010).

To retain ERP autonomy, SEBI encourages paying membership fees. In the "subscriber-pay" model, investors may be the primary source of income, but an issuer may also be a subscriber, according to the SEBI. The ESG ratings for India Investors evaluate the ESG compliance of portfolio firms in India, where ESG disclosure is still in its infancy, using only ratings from the most reputable worldwide ERPs. ESG-R is not yet regulated in India because it is still a relatively new concept. In 2021, Acute became the first Indian company to receive an ESG grade. The business developed a risk assessment system to assess an organization's ESG performance and provide a grade under the pretext of a commercial offering dubbed ESG Risk AI. In its consultation paper, SEBI recommends that in addition to the rating services that ERPs already offer, there should be a provision for core ESG rating. It is anticipated that this "core" will be based on the "reasonably" assured BRSR core disclosure. The International Organisation of Securities Commissions recommended global regulation of ESG data and rating providers in research published in 2021. However, SEBI departs from that recommendation by recommending the "core" ESG rating. It is helpful for comparison that the SEBI recommendation favors limiting the application of ESG ratings.

FUTURE PROSPECTS

- **Enhanced ESG Integration:** As India's corporate sector continues to recognize the significance of ESG factors, there is a growing potential for deeper integration of ESG considerations into mainstream business strategies. Companies can align their long-term goals with sustainable development objectives, demonstrating a commitment to responsible practices and fostering stakeholder trust.
- **Strengthened Regulatory Mandates:** The future will likely witness further developments in the regulatory landscape, with more robust mandates and guidelines for ESG reporting. Regulatory bodies such as SEBI may expand the scope of ESG disclosures, mandate reporting for a broader set of companies, and enforce stricter compliance to ensure consistent and meaningful reporting.
- **Technology-Driven Innovation:** Advancements in technology and digitalization will play a crucial role in streamlining ESG data collection, analysis, and reporting processes. Companies must leverage artificial intelligence, blockchain, and sustainability reporting platforms to enhance data accuracy, transparency, and efficiency.
- **Investor Influence:** The influence of responsible investing and ESG criteria in investment decisions is expected to grow. Institutional investors and asset managers will continue prioritizing companies with robust ESG practices, prompting businesses to improve their ESG performance to attract sustainable and responsible capital.

CONCLUSION

The Indian government supports ESG initiatives with ambitious climate goals, gaining traction in India to enhance corporate governance. ESG initiatives may suffer from implementation costs as a downside. However, the country had a sizable and developing economy, a young and educated workforce, and a solid dedication to environmental sustainability. Companies and investors have an unrivalled opportunity to shape long-term change and create a more prosperous future for the country as ESG initiatives take off in India. SEBI's suggestions may help India's ESG disclosure and ratings because of the ESG environment's complexity and the ESG-R domain's inherent obscurity. The baseline design, metrics, and KPIs for the "BRSR core" are the initial steps SEBI took, along with projected advancements in India-specific characteristics, including transparency and ratings.

The SEBI proposal KPIs for supply-chain resilience highlighted KPIs for supply-chain resilience given the opacity in company disclosures and the disparity in techniques for ratings, pointing to the reasonable assurance that demand from the stakeholders would increase for them to be harmonized as stakes in the ESG field get continuously more significant. However, SEBI has purposely avoided commenting on the ESG grading process. It makes sense that a security body like SEBI would focus on suggesting regulatory frameworks or providing examples. Even though the ESG-R market is still in its infancy, investee companies have already begun to exhibit "survey fatigue" due to their reluctance to provide information. The SEBI's recommendation to standardize through a "core" is a step in the right direction toward consolidation and standardization.

In conclusion, India's ESG reporting landscape is on a trajectory of positive change, with an increasing focus on sustainability, responsible practices, and long-term value creation. Embracing ESG reporting allows companies to align their business goals with broader sustainable development objectives, contributing to India's journey towards a more inclusive and resilient economy. By fostering a robust and inclusive ESG reporting ecosystem, India can lead in sustainable and responsible business practices, positively impacting society, the environment, and the economy.

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