ESG: New Age Financial Reporting in India – Challenges for Future

Nand L. Dhameja, Samo Bobek, Manish Dhameja & Priyanka Singh

The story of Environmental Social Governance (ESG) began in January 2004 with the joint initiative of United Nation, the International Finance Corporation (IFC) and the Swiss Government. ESG framework covers intangible factors and forces impacting organizations so as to be linked with the global social credit system. A business should have high ESG score in order to be in business for long unless there is a change in its behavior. In India, credit rating agencies like, CARE and CRISIL and banks have carried out surveys to work out ESG metrices among companies. This study highlights the need to develop ESG metrices for infrastructure projects, services namely, education, health care, transport, postal and communication, irrigation and water works deploying sizeable GDP.

Nand L. Dhameja (E-mail: nanddhameja@yahoo.co.in) is Professor Emiratis & ***Priyanka Singh*** is Professor, Manav Rachna Institute of International Research and Studies, Faridabad. ***Samo Bobek*** is Professor & Head of Dept. of e-business, School of Economics and Business, University of Maribor, Slovenia. E-mail: samo.bobek@uni-mb.si. ***Manish Dhameja*** is a Senior Banker having experience in South Asia, Africa and Middle East. E-mail: dhamejam@yahoo.com

Introduction

Environmental Social Governance (ESG) criteria is a subset of non-financial indicators, it includes sustainable environmental, ethical, social and corporate governance parameters and is exerting greater influence on the development and financing of organizations including public organizations. In fact ESG is described as synonymous with good business and corporate sustainability.

ESG: Origin

"The story of ESG investing began in January 2004 when former UN Secretary General Kofi Annan wrote to over 50 CEOs of major financial institutions, inviting them to participate in a joint initiative under the auspices of the UN Global Compact and with the support of the International Finance Corporation (IFC) and the Swiss Government. The goal of the initiative was to find ways to integrate ESG into capital markets" (Forbes). One year later (2005), an environmental policy work, Ivo Knoepfel, in his paper titled "Who Cares Wins: Connecting Financial Markets to a Changing World" contained recommendations by the financial industry to better integrate environmental, social and governance issues in analysis, asset management and securities brokerage. The corporate collaborators included big names, World Bank Group, Morgan Stanley, HSBC, Goldman Sachs, Deutsche Bank, UBS, Mitsui Sumitomo Insurance, Citigroup and others; and just like that, ESG was born (Wood, March 03, 2022)

ESG stands for "Environmental, Social, Corporate Governance" and is generally measured by a globalized Social Credit Scoring system. If one has a high ESG score, it will be easy to qualify for credit, to get the best deals with vendors and to participate in the global supply chain. Alas, if one doesn't have a high ESG score, it may be difficult to have long term sustainable operations, unless there is a change in business approach.So, how is ESG determined and who sets the rules and guidelines?

First, ESG has nothing to do with the physical aspects of a company, like capital, cash flow or profit. Rather, it focusses on intangible factors pertaining to business approach of a firm, its vendors and customers adherence to Sustainable Development and Climate Change policies.

Accounting regulating bodies emphasize on financial statements which primarily require reporting on financial performance in terms of funds deployed, activities generated, efforts involved and results- all in financial terms. There is absence of any requirement to report on aspects relating to environmental, social and governance and risk arising therefrom; though over the years, supplementary statements covering energy, pollution control, R & D, aspects relating to remuneration of employees, contribution towards corporate social responsibility, are prepared by corporations. In addition, certain public enterprises have a system of memorandum of understanding (MOU) for planning, control and performance evaluation by following financial as well as non-financial parameters using "five-point scale" and "criteria weight" which result in calculation of "composite score" or an index of the performance of the enterprise.

This paper discusses ESG framework; financial matters reported as supplementary statements; why does ESG matter? pronouncements by international bodies; ESG and UN Sustainable Development Goals (SDGs); ESG and CSR differentiation; ESG among emerging markets; ESG developments in India; ESG and SEBI requirements; ESG research studies by credit rating agencies like CARE and CRISIL. The paper also presents ESG matrices and the methodology for development of such matrices; Way ahead for further research relating to ESG is presented at the end

The idea of judging a company by its social good really started gaining traction in the 1980s when people began exerting pressure on companies not to do business in South Africa to protest apartheid. Later, in the early 1990s, the Body Shop became a dominant retailer of lotions, shampoos and soaps because of the way it advertised its sustainability efforts and outreach to disadvantaged communities (Stacy, September 10th, 2021)

Covid-19 and financial crisis during 2008 gave a call to overhaul the existing system of financial performance assessment indicators and so the emphasis on ESG metrics. Report of Organization for Economic Co-operation and Development (OECD) states that ESG investing can, under certain conditions, help improve management and lead to returns that are either equivalent or superior to those from traditional financial investments. Similarly, as per UN, investment in non-ESG companies could bear up to 28 percent more risk annually compared with ESG-integrated companies in the same industries. Hence, the incorporation of ESG factors could lead to lower volatility in a company's shares, thereby mitigating potential risks (CRISIL, June 2021)

Issues have been raised at annual general meetings by minority shareholders and institutional investors and have voted more actively on issues such as compensation, performance-based remuneration, related party transactions and payment of royalty to parent companies. Rejection of pay hike of Siddharatha Lal, MD & CEO, EICHER Motor; of BVR Mohan Reddy CEO, Cyient, formerly Infotech Enterprises; of Kevin Johnson, CEO Starbuck, are some instances.

ESG is about the UN's sustainable development goals (SDGs) set in 2015, and social responsibility; and these are spokes around the hub of corporate social responsibility or CSR. In a way, becoming accredited in CSR, a company fulfils ESG requirements.

ESG is about the UN's sustainable development goals (SDGs) set in 2015, and social responsibility; and these are spokes around the hub of corporate social responsibility or CSR.

ESG and social responsibility are becoming more important to customers, employees, and shareholders; and there is a heightened level of awareness of ESG (environmental, social, and governance) issues in the companies that people buy from, work for, and invest in. Importantly, people are willing to put their money where their mouth is when it comes to these critical factors (Stuart, 2021).

Indeed, the case for ESG is rising across all levels of organizational hierarchies, including the Board of Directors. A report from the Enacting Purpose Initiative states that "the purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems." In order for companies to live up to their purpose, they must be able to measure their ability to solve problems and not create harm (Joly, May 13, 2021).

The need for ESG reporting has become so salient that even CEOs are now asking for regulation. Research from Fortune, titled CEOs are calling for more regulation—of ESG standards, the majority of CEOs surveyed express a desire for the SEC in the USA to impose ESG reporting requirements. (Murry and Dunn, August 12, 2021)

As reported in a CRISIL Research Study, ESG has entered policy parlance of top economies; about 50 of the leading economies today have policies to drive sustainable investments. The EU, Canada, the US, Israel and many others are bringing out regulations especially on sustainable finance disclosures. These regulations support national policy goals on climate change and the UN's sustainable development goals (SOGs). A growing number of central banks and supervisors have also committed to support climate-related financial disclosure reporting, with a consensus that climate change forms an essential part of financial risk (CRISIL, June 2021)

Major progress towards a global convergence of ESG reporting standards was made at the climate conference in Glasgow with the establishment of the International Sustainability Standards Board (ISSB) in November 2021: a new effort to merge many ESG disclosure standards into one, and to encourage the uptake of these standards globally. (ISSB, Nov. 2021. https://movingworlds.org/esg-reporting-guide).The ESG disclosures are now mandatory in more than 25 countries. The format of disclosures is not firmed up and companies provide disclosures as per GRI, SASB etc.

In India, ESG disclosures are mandatory for top 1000 listed companies by market capitalization. As the format of submission varies, SEBI has mandated a standard format (pretty detailed) required from the financial year 2022-23. Though ESG metrics currently are not required of financial reports for publicly traded companies, or organizations; a growing number of companies in India are including these as separate statements namely, initiatives to control pollution, R & D, Corporate Social Responsibility (CSR), (and now also mandatorily required Business Responsibility and Sustainability Report (BRSR), remuneration policy of employees, and other aspects of interest to stakeholders. These are appended in Annexure A at the end. Increasingly, there is consensus among many regulators that some form of standardized ESG disclosures would be required of publicly traded companies on most major global stock exchanges.

There is consensus among many regulators that some form of standardized ESG disclosures would be required of publicly traded companies on most major global stock exchanges.

ESG criteria though is gaining prominence and has made substantial progress in analyzing and assessing the sustainability of social and development projects in developed countries; emerging economies are in the process of making some inroads; and this is discussed in the following pages.

Some International Frameworks

Despite the absence of international consensus regarding ESG disclosures, a number of frameworks and indices have emerged to guide company disclosures and inform investors; Some of the leading international frameworks include the Global Reporting Initiative standards, the Sustainability Accounting Standards Board (SASB) standards, the United Nations Principles for Responsible Investment and the United Nations Sustainable Development Goals. Ratings have also proliferated over the last decade. Morgan Stanley Capital International (MSCI) and specialist firms such as Sustainalytics have joined by traditional credit rating agencies like, Moody's and S&P Global.

According to CRISIL Research, considering that multiplicity of reporting frameworks is proving to be onerous for companies, the need for standardized and streamlined, leading organizations such as CDP, GRI, and Sustainability Accounting Standard Based (SASB) announced their decision to work together since September 2020. Further, the trustees of IFRS Foundation issued a consultation paper proposing the establishment of a new climate risk-focused Sustainability Standard Board (SSB) and based on responses, IFRS launched a working paper group including other sustainability and standard based-focused organizations. The Board would be based on existing frameworks and standards to enable a single reporting standard, with an initial focus on climate change issues. Thus, the question has shifted from: should we consider ESG to how do we actively and materially pursue adoption and better implementation of ESG practice? Investors are paying attention and ESG has become an imperative for all to follow. In fact, JPMorgan Chase (JPM), Wells Fargo (WFC), and Goldman Sachs (GS), the financial services companies in their annual reports carry an extensive review of the ESG approaches and the bottom-line results; and that ESG-minded business practices are gaining better attraction; and that the investment firms are increasingly tracking their performance

ESG & Corporate Social Responsibility

The difference between ESG and CSR is confusing, the two terms are used in an inconsistent way. In some companies, the Corporate Social Responsibility leader is also responsible for the company's ESG reporting; in other companies, these are separate roles, and sometimes, they do not even work together at all.

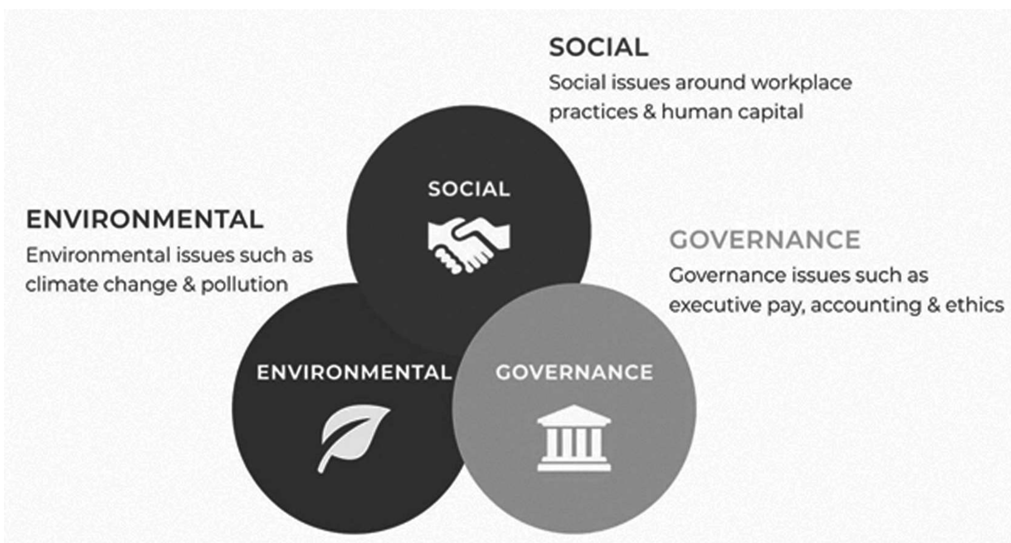
For some companies, ESG is a wider term which includes CSR or CSR is a subset of ESG. As per SEBI format of BRSR, details of CSR expenditure are provided in Section A of ESG disclosures. The details on how the CSR expenditure is done is separately provided in detail (project wise) as per CSR law. There are further Section B and Section C required to be submitted in the BRSR report on an annual basis. Hence ESG disclosures are much wider and broader. As CSR, for some companies, refers to corporate activities of being more socially responsible towards becoming a better corporate citizen. ESG refers to how companies and investors integrate ESG concerns into their business model.

CSR encompasses all self-imposed and self-regulated activities to make a company more responsible, from setting targets to be carbon neutral, engaging in philanthropy, imposing ethical standards, to reporting on ESG targets. ESG is an effort heavily influenced by governments and investors to have companies report on specific and material environmental, social, and governance factors. In the words of, Kari Hayden Pendoley, consultant "*ESG is like CSR with teeth*" (ESG Reporting Guide)

ESG Framework

ESG is the acronym for Environmental, Social and Governance. Though 'E', 'S' and 'G' are seen as distinct pillars, they are also related and overlap when an organization tries to look at one of them as reflected in Fig. I

Fig. 1 Environmental, Social and Governance: Three Distinct Pillars of ESG



Components of three pillars are:

- *Environmental Parameters* i.e., an enterprise performs as a steward of nature: This includes natural resources conservation; disposal of hazardous wastes and environment risk; management of toxic emissions; government environment regulations non-compliance.
- *Social Parameters* i.e. an enterprise manages its relationship with its stakeholders: enterprise mission, its social benefits and relevance; enterprise policies and practices; working conditions and taking care of employees health and safety and encourage employees to perform voluntary works; policy to protect against misconduct of employees, sexual harass-

ment; avoid operations in higher risk-areas, exposure to coal or lard coal mining; avoidance of tobacco, weapons and private prisons; protection of cruelty against animals.

- *Governance Parameters* i.e., enterprise leadership involvement; these include employees-shareholders-customers satisfaction; accounting practices- transparency and accuracy, internal controls system; issues of executive compensation; HRA, price-level changes and economic value addition; audits, internal controls; board composition and its diversity; involvement in anti-social and illegal practices; shareholders rights and their treatment (Dhameja & Dhameja April 2, 2022)

ESG among Emerging Markets

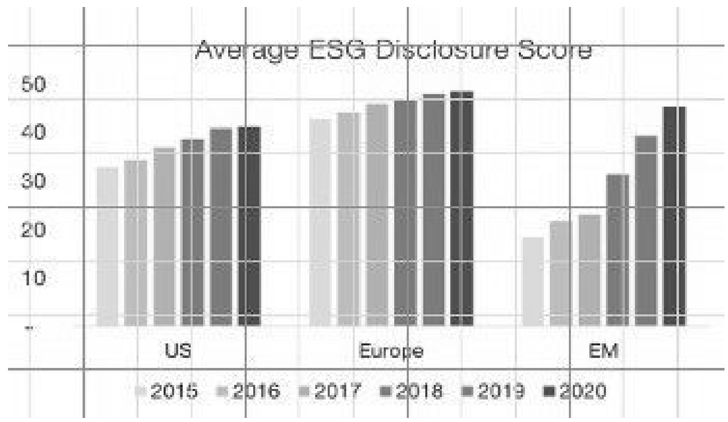
Firms in emerging markets account for about 23 percent of the UN Global Compact business signatories—Brazil leads with 714 companies. Emerging Markets have long been viewed as laggards on ESG disclosure compared to developed economies. Regulators in EM have been increasingly adopting ESG disclosure requirements. The 2018 Sustainable Stock Exchanges (SSE) progress report highlights several key EM Stock Exchanges at the forefront of ESG regulations. For example, the likes of Brazil, Hong Kong, India, Indonesia, Malaysia, Mexico, South Africa, and Thailand are currently mandating ESG disclosure as a listing rule. And of the 108 partners of the 2021 SSE Initiative, about 50 are in emerging and developing economies. Key contributing factors driving these positive ESG changes include the shift in public opinion towards greater environmental and social awareness; access to greater financial opportunities as investors favor businesses taking ESG actions; and domestic policies, regulations, and frameworks aimed at strengthening ESG. (Cornell University, December 9, 2021)

Bloomberg ESG Disclosure Score: US, European Companies and Emerging Markets

Increasingly, EM companies are embracing ESG reporting and disclosure. Analysis of the proprietary Bloomberg Disclosure Score measures the amount of ESG data a company reports publicly, it reveals strong progress relative to US and European companies. Fig. 2 presents ESG score among US, Europe and emerging economies (Dhameja & Dhameja April 2, 2022).

Rule of Law has been an indicator of emerging ESG in developed economies; it is the foundation for communities of justice, opportunity, and peace-underpinning development, accountable government, and respect for fundamental rights. The Rule of law correlates to higher economic growth, greater peace, less inequality, improved health outcomes, and more education. The Rule data has been indexed for 150 economies on a scale of 0-100 to show each country's relative position against others in the database. A value of 100 indicates an exceedingly high Rule of Law. Slovenia has a Rule of Law Index of 76.3 ranking, 22nd of 150 in the global listings. Countries having index raking above 90 include

Fig. 2 Bloomberg ESG Disclosure Score among US, Europe and Emerging Markets over the years



Finland, Norway, Sweden, Switzerland, Denmark, New Zealand, Austria, Canada, Netherland; India has a Rule of Law Index of 46.1 ranking (Rule of Law Index October 14, 2021)

Lastly, it would be appropriate to mention that the Future Investment Initiative (FII) Institute has planned a Summit, ESG in Emerging Markets, at Rosewood, London on May 22, 2022, with two themes as:

- The Future of ESG,
- The Future of Sustainability with 40 international experts

Emphasizing the importance of ESG, Richard Atlas, CEO FII Institute, said "the planet has huge problems with climate, with destruction of nature and with peace and security. But we also have enormous resources including our shared humanities. We believe ESG is a critical tool for bringing us together capital to meet these challenges" (Future Investment Initiative (FII) Institute May, 2022)

ESG Developments in India

In India, ESG considerations have received a great deal of attention and the pace of adoption is fast. India has also been witnessing this transformation as the Ministry of Corporate Affairs - GOI, released National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) in 2011. NVGs are aligned with Sustainable Development Goals (SDGs) and the United Nations Guiding Principles on Business & Human Rights (UNGPs). Overtime India has strengthened its actions and made Corporate Social Responsibility (CSR) mandatory under Indian Companies Act in 2013 and has been gradually enhancing the requirements for listed companies towards ESG disclosures. Securities and Exchange Board of

India (SEBI) mandated top 100 listed entities by market capitalization to provide ESG disclosures in a submission titled Business Responsibility and Report (BRR) from year 2012-13. The requirement for filing BRRs was extended to the top 500 listed entities and later to 1000 listed entities by market capitalization from the financial year 2015-16 and 2018-19 respectively (www.mca.gov.in). In line with global trends, ESG awareness and investor interest in India for ESG is increasing significantly. While top 1000 listed companies by market capitalization have been providing the BRR disclosures, the format and quantum of the provided information vary leading to non-comparability & full usage of these disclosures. To align these submissions, the Committee on Business Responsibility Reporting (2020) has mandated these listed companies to provide ESG disclosures in a standardized format called Business Responsibility and Sustainability Report (BRSR), which shall replace the BRR from the financial year 2022-23.

The government issued certain guidelines regarding business responsibility reporting in 2020 (Ministry of Corporate Affairs, May 20, 2020), In this respect, FICCI ESG Summit 2022 released a White Paper, 'ESG into the Mainstream' which highlighted how the key business stakeholders such as investors, regulators, customers, and employees are bringing ESG parameters into sharp focus and is taken as a boardroom discussion. The report explored the themes of ESG Crisis Readiness and Regulation of ESG Ratings Providers in India through global comparisons and made recommendations on the ESG framework that preempts ESG crises as well as handles one responsibly when it arises. Key features of the Report included: (FICCI ESG Summit, March 12, 2022)

- Unlocking Green Finance explores India's readiness to access and deliver climate finance and other related aspects such as uniform carbon tax policy and green taxonomy for enhancing investor confidence.
- Focusing on redefining corporate citizenship – the road to sustainability.
- ESG metrics

To contribute to the development of the country's environmental, social, and corporate governance (ESG) ecosystem and to assist Indian enterprises in incorporating the ecosystem into their core business and investment choices, a Center called Arun Duggal ESG Center for Research and Innovation was set up in December 2021, by the Indian Institute of Management Ahmedabad (IIMA), a prominent worldwide management institute. "The Center aspires to be a leading platform to facilitate dialogue and cutting-edge research to improve the ESG performance of organizations and enterprises while nurturing an ecosystem for stakeholder capitalism in India." (Kaushik Dec, 02, 2021)

Deutsche Bank has a significant and rising focus on ESG practice among Indian corporates and has planned to serve ESG linked financial needs of India Incorporations. ESG is planned to be a core pillar of the bank's strategy; the bank has set up an ESG Center of Excellence in Asia on creating new innovative sustainable financing products for corporate clients and to serve clients across capital markets, loans and derivative products.

According to Kamran Khan MD and head of ESG for Asia Pacific, Deutsche Bank, ESG implementation is more difficult as compared to developed countries; banks have many important lessons to learn in Asia, and it is the financial institutions that have to do important work in Asia; the Deutsche bank has to help fine-tune overall ESG practices. The bank is working on new products and is seeking increasing interest in environment, social and governance. The bank has done many ESG transactions in Asia Pacific during 2021 and has advised on several ESG linked transactions such as Shriram Transport Finance's social bond offering, JSW Infrastructure's sustainability linked bond, and Greenko's green bond. Khan is of the view that, "while it is relatively easy to measure impact in ESG (E) transactions, the financial services industry is still learning how to effectively measure impact in ESG (S) transactions. The speed with which we pivot towards sustainability on the 'E' side needs to be balanced with the possible resulting impact on lives and livelihoods of common people, the 'S' side" (Deutsche Bank, Mint April 1, 2022)

CARE Analysis

Analysis of top 150 listed entities by market cap for the year 2020 has shown marked improvement in their ESG performance and ESG metrics around factors like, emissions, push towards renewable energy, diversity and inclusion and key governance issues such as independence of audit committees and better board functioning. Sector-wise analysis is as under:

- Service sectors like IT and Financials lead the way in terms of disclosures and focus on ESG goals, largely due to their global presence and attractiveness for global capital. These sectors have a deeper integration of ESG into the business strategy.
- IT, Financials, Real Estate and Communication sectors reflected good governance in terms of diversity of over 25 percent in their workforce, at the board level too, over 60 percent of the companies analyzed have two or more women on the board.
- Evident is the move towards adoption of global best practices in governance, such as ensuring the independence of the Board with a non-executive Chairman and having an audit committee comprising only independent directors. Even sectors like real estate which are promoter run, have shown a stark improvement on these governance metrics.
- Manufacturing sector, sectors like auto, steel and cement have shown a focus especially on the environment themes, with reduction in emission intensity and shift toward renewable power, thus seeing an improvement on ESG scores over the last two years. In fact, there is a shift of almost 10 percent, on average, towards

renewable power from conventional sources.

- On social themes too, there has been an improvement over last year, with diversity and inclusion being a key theme that companies have embraced
- Some of the key pain points when it comes to conducting ESG assessments in India include lack of data, gaps in disclosures.

SEBI requirement of compulsory reporting of non-financial reporting, for top 1000 listed entities, through the Business Report and Sustainability Report (BRSR) would soften it to some extent' and it, in turn, is expected to improve their ESG performance by compelling them to bring in discipline and improve compliance. Sustainability reporting would include reporting on environment, social and governance themes through Integrated annual reports, Sustainability reports, BRSR or Corporate social responsibility reports. (CARE, 2021)

CRISIL Analysis (CRISIL June, 2021)

CRISIL Research conducted a survey among 100 respondents during May-June 2021 to understand their market perception of ESG: the respondents comprised 40 individuals, 40 corporates and 20 intermediaries. The research also worked out ESG score of 225 companies across 18 sectors; the data had been collected from companies' annual reports for three years through 2020, company web site and other qualitative and quantitative data rereleased by the company; the ESG score is in the range of 1 to 100, 100 denoting the best score. CRISIL Research Study presents ESG Scores of top 225 Companies, Presenting score of 'E', 'S', 'G', and ESG Score. Over 100 distinct parameters across ESG were integrated to ensure that the assessment is relevant in Indian context. Score 'E'; 'S' 'G' and 'ESG' for 225 entities are presented to Table 1.

Table 1 Frequency Distributions of Companies having Scores of 'E', 'S' , 'G' and 'ESG'

Range	'E'	'S'	'G'	'ESG'
<== 40 %	68	22	6	4
41 – 50%	64	68	30	44
51 –60%	47	74	46	99
61- 70 %	36	52	72	61
70 % & above	9	9	71	16
	225	225	225	225

(Source: Drawn from the data contained in the CRISIL-ESG Compendium)

While 'E', 'S' and 'G' are seen as distinct pillars, are also related and they overlap when an organization tries to look at one of them.

The findings of the CRISIL Research are as under:

- About 80 percent of institutional investors integrate ESG in their investment decisions

- Information technology and financial companies have relatively high ESG score given their lower natural-resource intensity, resulting in lower emission, waste generation and water usage, but high employment generation.
- On the other hand, oil and generation, chemicals, metals and mining, and cement companies have lower ESG scores.

From an Environmental perspective,

- Use of renewals is an important assessment parameter, the average share of renewals in energy consumption remains low at 14 percent, whereas real estate, fast moving consumer goods and IT sector is more than 25 percent.
- For computation of 'E' score for a company, mix of the weightage of the sector and the relative performance of the company score within that sector was considered.

From Governance perspective

- Gender diversity at Board level and in the workforce of companies' assessment remains at 17 percent and 13 percent, respectively.
- Independent directors on the board, an important aspect of corporate governance protecting the interest of all stakeholders, had a score of 47 percent.
- 'Several developments point to the rise of ESG to the center of investment and lending decisions globally included:
- Number of sustainable funds and the amount of investment have grown manifold;
- Various international standards and frameworks for the adoption of ESG, responsible investing and comprehensive reporting have shot into prominence in the past decade;
- Global leaders have joined hands to combat climate change and social inequity and reduce global emissions;
- ESG has reached a tipping point with the pandemic.
- ESG Research Findings: Indian Perspective:

The pace of adoption of ESG in India has accelerated in recent years, with the support from the government, investors, shareholders and corporations as:

- *On Environmental front*, government priority as regards climate change, pollution and biodiversity conservation are the key challenges. The push to electric vehicles is an example.
- India is the only G20 country to meet the Paris Agreement goal of limiting global warming by 2# Celsius. India has reduced 24 % of its emission intensity relative to gross domestic product (GDP) from 2005 level,
- The country has witnessed the fastest rate of growth in renewable energy capacity among large economies—its capacity increased 2.5 times (solar energy expanded over 13 times).

- *On Social front,* the affordable housing scheme, development of rural areas (electricity, internet and telecom connectivity) free education for children and women empowerment are some initiatives.
- For computation of 'S' score for a company, mix of the weightage of the sector and the relative performance of the company score within that sector was considered.

On Governance side, tightening norms and formation of committees such as Kotak Committee on Corporate Governance as well as the business responsibility and sustainability report (BRSR) have helped adopt more transparent and credible approach.

To arrive at the overall ESG score for a company, relevant weightage is assigned to E (35%), to S (25%) and to G (40%) to reflect the relative importance of factors. Companies are scored on a scale of 1 -100, where 100 is the highest.

Emergence of ESG funds and indices: With the rising importance of ESG factors for investors, eight mutual funds dedicated to ESG have emerged in India these eight funds are integrating ESG factors into investment decisions and are included in investment strategies.

A few ESG indices have also emerged in the country as:

- NSE indices launched the Nifty100 ESG Sector Leaders Index in 2017, which gives investors exposure to select large-cap companies in the Nifty 100 index that have performed well on ESG risk management.
- The Nifty 100 ESG Index has beaten the Nifty 100 index over the period between April 1, 2011, and March 31, 2021.

In various markets, ESG has performed better as under:

Index Name	Index Level	5–year return
S&P BSE SensexJan. 1, 1986	52, 306.08	14.14%
S&P BSE 100 ESG IndexOct. 26, 2017	262.42	15.69%

(Source: CRISIL Survey Report: 21)

CRISIL ESG Market Survey Findings:

A. INVESTORS Perceptions of ESG data

a) Which asset Classes Do you Invest: (Perceptions in Percentages)

Classes of Assets	Perceptions (in%)
Fixed Income	72 %
Listed Equity (Small Cap)	45%
Private Equity	Small Percentage

b). Percent of Respondents considered ESG Data/Score in their Investment/Lending Decisions

Investors Considered in Investment Decisions	50%
Did not Consider in their Investment Decisions	50%

It indicates investors have a balanced understanding of Indian ESG market
and they gain important insight

c). Individual Investors Assigning Priority in their Decision making:

ESG Parameter	Priority
Governance	73%
Environment	46%
Social	38%

d). Individual Investors did not consider ESG Data for Decision making due to factors as:

Lack Good Quality information	37%
Insufficient Knowledge	35%

B. CORPORATES Perceptions of ESG data

Business Continuity: Critical for Raising Capital & other Decision-making Process	80%
Reputational Benefits	60%
Risk Mitigation and Management	50%
Competitiveness	48%
Compliance	42%
Identifying Opportunities	40%

b). Corporates did not consider ESG Data for Decision making due to factors as:

Insufficient knowledge on these issues	18%
No business case for ESG/sustainability	20%
Lack of Demand from Investors & other shareholders	15%
Lack of Demand from customers	7%

c). Limiting implementation of ESG Sustainability Plan at organization due to factors as:

People Expertise	50%
Low Customer Demand	30%
Cost	28%
Low Regulatory push	24%
No Demand from Shareholders	10%
No Demand from Investors	8%
Low interest from Board	4%
Low interest from Employees	1%

d). ESG Disclosure requirement growth due to:

Disclosure requirements from Investors	66%
Disclosure Requirements from Regulators	50%
Material information from companies	43%

This highlights the need for Training on ESG and global framework

C. INTERMEDIARIES Perceptions of ESG data

Intermediaries Include service clients such as retail & institutional investors, family offices, High-net-worth individuals

ESG factors considered important for their services:

Governance	84%
Environmental	60%
Social	47%

Trends in Social Parameters

- The attrition rate of key service industries such as financial services, health care, IT and real estate is relatively high at over 20 percent.
- Only about one in 10 employees are women on average

Trends in Governance Parameters

- Representation of women on Board low at 17 percent
- Only 21 of the 225 companies under study have minimum of one-third women representation on their Boards, as many as 12 companies, including five large scale cap firms, have no women on their Boards criteria of one-third independent directors
- Percentage of independent directors modest at 47 percent; only eight percent have more than two-third.

- As many as 32 percent of the 225 companies surveyed did not meet the statutory criteria of one-third independent directors required as per Companies Act for listed companies.
- Many public sector companies have low independent directors' representatives and six have no independent directors.
- 25 percent of firms have independent chairmen and 26 percent common chairmen/Managing Directors
- Average CEO tenure close to eight years.
- 22 percent have provided quantitative distribution.

Way Ahead

ESG has been linked to a globalized Social Credit to get deals with venders and to participate in global supply chain. A business should have high ESG score in order to be in business for long unless there is a change in their behavior.

A business should have high ESG score in order to be in business for long unless there is a change in their behavior.

Financial statements are primarily in financial terms and mainly contain tangibles and are regulated by financial regulatory bodies, though certain financial aspects of interest to stakeholders are presented as separate supplementary statements. On the other hand, ESG is concerned with intangible factors and forces impacting organizations, had been developed by investment and development bankers so as to be linked with the global social credit system; it includes environmental, social and governance and climate change factors, these are Sustainable Developmental Goals. There has been demand by stakeholders, investors, and directors to develop ESG matrices.

Centers set-up by the IIMA and Deutsch Bank, and studies by credit rating agencies like CARE and CRISIL open-up ESG areas of interest. Surveys and the studies to develop ESG matrices for 225 companies by CRISIL consider the available quantitative and qualitative parameters; the methodology to use 100 development parameters reflect matrices for environmental, social and governance factors for 225 enterprises from 18 sectors. The study indicates that:

- ESG disclosures have grown due to the requirements of investors, regulators and information requirements from companies;
- About 80 percent of institutional investors integrate ESG in to their investment decisions;
- IT and finance companies have high ESG score;
- On Environmental front, government priority as regards climate change, pollution and biodiversity conservation, pushing of electric vehicles are the key steps to meet the Paris Agreement of limiting global warming by 2# Celsius, and India is the only G20 country to meet the Paris Agreement goal of limiting global warming by 2# Celsius;

- On Social front, the government has introduced various initiatives including affordable housing scheme, development of rural areas (electricity, internet and telecom connectivity) free education for children and women empowerment;
- Lack of data, gaps in disclosure have been described as some pain points for carrying our ESG studies. However, mandatorily required Business Responsibility and Sustainability Report (BRSR), government policy initiatives would ward against the limiting factors for the study in the next edition by CRISIL and also by various Centers.

Further, service sector and also the large infrastructure projects account for a sizeable percentage of GDP; many services are planned and announced; a little is known about their accomplishment and outcome. Though ESG factor for such services has diverse developmental parameters, study to develop ESG metrices for such services namely, education- both school and higher education- institutions, health care, postal and communication, transport services, irrigation and water works projects, power projects, NGOs and infrastructure projects would throw light on the working of such services, and their contribution both to the organizers, society and government; these are challenges for ESG studies and ESG metrices by the centers and institutions involved.

Acknowledgements

The authors convey their heartfelt thanks to Dr. N. C Wadhwa, (IAS Retired) Director General, Manav Rachna Educational Institutions, Faridabad for his comments on the earlier draft of the study. His comments were valuable inputs for the revision of the paper. Views expressed are of the authors and not the organizations to which they belong

References

CARE (2021), ESG Analysis among Top 150 India Companies, CARE Research and Training Services, Mumbai

Cornell University (Dec. 9, 2021), ESG Pressure Takes Centre Stage at the 2021 Emerging Markets Institute Conference, Cornel University, Mirage

CRISIL (June 2021), Analysis of ESG among Indian Companies; CRISIL ESG Compendium

Deutsche Bank (April 1, 2022,), "Deutsche Bank Want to be No 1, in ESG in Asia, Deutsche Bank's Khan", *Mint*

Dhameja L. Nand & Dhameja, Manish (April 2, 2022), "Environment, Social Responsibility (ESG): New Age Financial Reporting, *Mainstream,* LX (15) ESG Reporting Guide, What ESG Reporting Is and How to Do It - MovingWorlds.org

https://movingworlds.org › esg-reporting-guide

Future Investment Initiative (FII) Institute (May, 2022) RIYADH OFFICE, 12382 SAUDI ARABIA

FICCII India ESG Summit, (March 12, 2022), White Paper Released Into the *Mainstream*

Joly Hubert, (May 13, 2021), "How to Lead in the Stakeholder Era", HBR Digital Article H06CHZ

Kaushik Vagista Das Arpita (December 2, 2021), IIM Ahmedabad to Launch Arun Duggal ESG Centre for Research and Innovation (Career 360)

Ministry of Corporate Affairs (May 20, 2020), Report of the Committee on Business Responsibility Reporting, GOI

Murray Alan & Dunn Katherine (August 12, 2021), "CEOs Are Calling for More Regulation—of ESG Standards", *Fortune Newsletter CEO*

Rule of Law Index (October 14, 2021), WJP Washington DC, Slovenia's Governance ESG | Data | on World Economics

Stacy Wescoe (September 10th, 2021), "ESG: What Is It and Why do Companies Suddenly Care" Crisis Management update website and weekly newsletter (Bridge Tower Media Corporation, Greensboro, NC 27409)

Stuart R. Levine's (2021), "Don't Get Left Behind On ESG", Forbes URL: https://www.forbes.com/sites/stuartrlevine/2021/08/23/dont-get-left-behind-on-esg/?sh=3525a42d199a

Wood Patrick (March 03, 2022), "ESG Scoring Drives Companies Into Sustainable Development, Aka Technocracy", *Technocracy News & Trends* – Mar 03 2022

Annexure A

Issues Annexed as Supplementary Statements to Annual Report of a Company

Environment and Energy Conservation: The Companies Act 2013 and the SEBI Regulations impose various environmental and/or energy conservation-related reporting obligations. Accordingly, companies include in their Annual Reports information regarding any action taken to improve energy conservation, and to describe initiatives taken from an environmental, social and corporate governance perspective.

Remuneration Policy for Corporate Executives: With the objective to introduce the principle of transparency and to have good governance in the remuneration policy, companies are required to disclose in their Annual Reports:

- ratio of the remuneration of senior most functionary to the median remuneration of the employees for the financial year;
- percentage increase in remuneration of senior functionaries during the financial year.
- percentage increase in the median remuneration of employees in the financial year

*Financial information & Financial Statements Presentation***:** With the objective to recognize and encourage excellence in preparation and presentation of financial information, the Institute of Chartered Accountants of India (ICAI), the accounting regulating professional body, organizes annual competition 'ICAI Awards for Excellence in Financial Reporting.' Recognizing that the research contributions in the areas of International and Societal importance encompassing subjects of accounting, auditing, economics, finance and taxation, the ICAI instituted 'ICAI International Research Awards 2020'. It was envisaged that over the period, the research in these areas would provide valuable inputs to address many environmental, social and corporate government issues (ESG) for decision makers towards sustainability. Also, effective financial reporting plays a significant role in accelerating the economic growth of a country as the information provided through annual reports enables the management and other relevant stakeholders in taking various effective business, investment, regulatory decisions.

Corporate Social Responsibility: As part of Corporate Social Responsibility (CSR), companies are required to contribute towards social cause. Such contributions though voluntary in western countries, is mandatory for companies in India. As per the law enacted in April 2014, every company with a net worth of Rs. 500 crore or more, or turnover of Rs. 1,000 crore or more, or net profit of Rs. 5 crore or more in a financial year is required to contribute 2 percent of the average profit of the last three years towards CSR in various areas clubbed under 11 broad activities; and about Rs. 20,000 crore is the annual contribution under CSR. In addition, top 1000 listed companies (by market capitalization) are required to provide ESG disclosure. For CSR reporting, companies constitute a Corporate Social Responsibility Committee (CSR Committee) to have symbiotic relationship between the various stakeholders to strengthen communities, and also to recognize the long-term benefits of such relation.

Memorandum of Understanding (MOU) was adopted on the recommendations of the Arjun Sengupta Committee for measurement of performance of public enterprises in 1987-88. MOU is a negotiated agreement between the government and the management of an enterprise laying down clearly the objectives of the agreements and the obligations of both the parties. The system adopts “five-point scale” and “criteria weight” which ultimately result in calculation of “composite score” or an index of the performance of the enterprise.

Other Financial Matters included in Annual Reports

In addition, companies in India include in their Annual Reports following aspects, as separate statements, though these are not mandatorily required:

- Economic Value Statement
- Human Resource Accounting Statement
- Statement for Price-Level Changes
- Fund-Flow Statement
- Foreign exchange Earnings and outgo
- Contribution to Exchequer

Accounting Professional Body namely Institute of Chartered Accountants of India, gives due consideration to such reporting in its annual competition ‘ICAI Awards for Excellence in Financial Reporting’.