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Harmony of profit and planet: A study on ESG practices of Indian companies

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Abstract
Corporate sustainability, which considers environmental, social, and governance aspects in business activities, is crucial in attaining SDGs. Corporates across the world recognise the importance of sustainability and incorporate such practices into their business. India, a leading developing country, also considered the issue seriously, adopted various rules, and issued guidelines to inculcate sustainability practices among Indian companies. This study analyses the corporate sustainability practices among Indian companies. Based on the ESG data obtained from the Bloomberg database, the study analysed the 12-year time-span sustainability practices data of 113 non-financial companies included in Nifty200. The analysis indicates that the combined ESG score and the individual environmental and social scores suggest that these areas are not meeting expectations and require further attention. However, governance practices are comparatively outperforming the environmental and social aspects. Regulators have to ensure corporate sustainability, and additional strategies are essential to ensure better sustainability practices beyond mandating sustainability reporting.

Keywords: ESG, India, corporate sustainability, trend, sustainability reporting.

Introduction

Sustainability has recently gained immense attention due to global warming and high-temperature fluctuations (Goto & Sueyoshi, 2020) [6]. Climate change has become a global challenge, and the world has already started seeing catastrophic results like increased frequencies of cyclones, floods, forest fires, extreme weather conditions and cloud bursts. The search for progress by human beings has led to resource exploitation reaching its peak and has created challenges for the earth and ecosystem (Kingsbury *et al*., 2004) [8]. Though nature is sufficient to satisfy the needs, greed creates problems (Guha, 1995) [7]. Sustainability is the only solution to safeguard the ecosystem and uplift the society. By recognising the importance of sustainability, the United Nations (UN) introduced sustainable development goals (SDGs) and 2030 agenda, representing a detailed framework adopted by member nations to address global challenges and achieve a sustainable future. SDGs include 17 interlinked goals.

UN Global Compact states that business organisations have a crucial role in achieving the SDGs as they use significant resources for production and related activities (UN Global Compact, 2024). Mainly, SDG 9 deals with Industry, innovation and infrastructure and SDG 12 deals with responsible consumption (Nicolò *et al*., 2023) [17]. In short, SDGs will remain as goals until and unless the corporates will act sustainably. Corporate sustainability is the adoption of business strategies and practices that represent the present needs of the organisation and stakeholders while also protecting the resources (human and natural) necessary for the future (WCED, 1987) [26]. Sustainability practices consist of environmental, social and governance focused responsible practices of corporates. In recent decade, there has been a significant recognition of corporate sustainability practices and their potential contribution to sustainable development by various nations and international agencies. This has spurred a historical progression within the research community to explore corporate sustainability from diverse perspectives. Researchers primarily use the ESG (Environmental, Social, and Governance) disclosure score as a key indicator of corporate sustainability. The ESG disclosure score encompasses a firm's environmental, social, and governance practices.

The environmental pillar includes carbon emission, climate change effects, pollution, waste disposal, renewable energy, and resource depletion (Eng *et al*., 2022; Li *et al*., 2021) [3, 9]. Further, the social dimension involves diversity, human rights, discrimination, political contributions, supply chain and community relations (Eng *et al*., 2022; Li *et al*., 2021) [3, 9]. Finally, the governance pillar comprises executive, compensation, shareholders rights, independent directors, takeover defence, staggered boards and cumulative voting (Eng *et al*., 2022; Li *et al*., 2021) [3, 9].

Most previous research has focused on studying the corporate sustainability practices of developed nations. Although some attempts have been made to examine these practices in emerging countries, such studies are limited. Therefore, conducting research in the context of emerging countries is crucial, as they are developing rapidly. If their development does not adhere to social and environmental norms and practices, it may harm society and the planet in the long run (Lozano & Martínez-Ferrero, 2022) [10]. Furthermore, emerging countries have their own unique challenges, such as structural and capital problems and political conflicts, which can also hinder business efficiency and growth (Lozano & Martínez-Ferrero, 2022; Singhania & Saini, 2023) [10, 24].

India, the fifth-largest and major developing economy, is trying to implant corporate sustainability among Indian companies. Securities and Exchange Board of India (SEBI) mandated Business Responsibility and Sustainability Reporting (BRSR) for the top 1000 companies based on market capitalisation. The SEBI and Ministry of Corporate Affairs are introducing laws and making sustainability reporting mandatory for Indian companies. The Ministry of Corporate Affairs introduced voluntary guidelines on Corporate Social Responsibility in 2009. In 2011, the Ministry of Corporate Affairs came up with National Voluntary Guidelines (NVG) on social, environmental and economic responsibilities of business. The Securities and Exchange Board of India (SEBI) mandated the Business Responsibility Report (BRR) for the top 100 listed entities at NSE and BSE based on market capitalisation as of March 31, 2012. After that, SEBI issued a format for the BRR report in 2015. In 2017, SEBI advised the voluntary implementation of integrated reporting (IR) for the top 500 companies disclosing BRR from the financial year 2017-18. The Ministry of Corporate Affairs issued National Guidelines on Responsible Business Conduct, 2018 (NGRBC), an update to the National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business, 2011 (NVGs). SEBI extended BRR mandatory for the top 1000 listed companies based on market capitalisation from the 2019-20 financial year onwards. In 2020, BRR was renamed Business Responsibility and Sustainability Reporting (BRSR).

Since 2009, the government of India and SEBI have been trying to implement effective and efficient sustainability practices among Indian companies. Over the years, companies have taken steps to follow sustainability practices and become socially and environmentally responsible development centres. So, it is important to understand the progress of corporate sustainability practices among Indian companies and what kinds of efforts are required to develop these practices further. So, this study aims to answer the following questions;

- Has India performed well in corporate sustainability over the years?
- How well has each element of the corporate sustainability score progressed over the years?

By answering the above questions, the present study becomes the first of its kind and brings meaningful insights for corporates, regulators, government and other stakeholders to make the most appropriate decisions. The rest of the paper is classified: Section 2 highlights significant literature relating to our study and is followed in section 3, the methodology adopted in the present study. Results and discussions are shown in section 4. Finally, the paper concludes in section 5 by drawing implications from the findings of the study.

Literature review

Corporate sustainability is the adoption of business strategies that meet the present needs of the organisation and the stakeholders and preserve, uphold, and advance natural and human resources for future needs (WCED, 1987) [26]. Most business organisations have started to produce sustainability reports for the public (Goto & Sueyoshi, 2020) [6] and strive to use resources rationally by considering sustainable development (Neto *et al*., 2020) [16]. Corporates' willingness to report sustainability will help in carbon reporting and reduce carbon emissions (Román *et al*., 2021) [19]. Corporate sustainability is generally measured by analysing the sustainability reports (for example (Bager & Lambin, 2020; Rustam *et al*., 2019; Zinsou & Zinsou, 2018)) [1, 21, 27] or using ESG disclosure scores provided by databases like Bloomberg (Giannarakis *et al*., 2020; Romano *et al*., 2020; Sharma *et al*., 2019) [5, 20, 22], Thomson Reuters (Gallego-Sosa *et al*., 2020; Matos *et al*., 2020; Mitra & Gaur, 2020) [4, 13, 15], MSCI (Singal, 2014) etc.

Thomson Reuters integrates 186, and MSCI integrates 34 key matrices or sub-metrics. Thomson Reuters and MSCI use ten variables to calculate ESG score. Bloomberg calculates the ESG score using 120 sub-metrics grouped into 18 categories. The 18 categories were equally attributed to environmental, social, and governance matrices. The variables include all the aspects, from emissions to the rights of shareholders. Bloomberg integrates annual reports, sustainability reports, press and research data to measure ESG scores (Sharma *et al*., 2019) [22]. The ESG score provided by Bloomberg uses more variables and covers all the aspects compared to other ESG providers, and it is also widely used in prior literature.

Methodology

Sample Design: This study is based in India, a country where sustainability reporting is not mandatory for all companies, and sustainability scores are also not available for all companies. SEBI mandated Business Responsibility Reporting (BRR) for the top 100 companies in 2012, expanded to the top 500 in 2015, and expanded to the top 1000 in 2021. For the optimum coverage of companies and years, this study chose Nifty200 as the sample, which covers 82% of the market capitalisation (NSE, 2023) [18]. Financial institutions included in Nifty200 were omitted due to their special financial characteristics and regulations; further, they have less direct impact on the environment. So, 45 financial firms are excluded from Nifty200. Based on the availability of sustainability data, 2010 is chosen as the base year. After excluding companies with missing data, the researcher finalised a sample of 113 non-financial companies from Nifty200, covering 12 years.

Database and Measure: This study measured corporate sustainability practices using the ESG disclosure score provided by the Bloomberg database, a prominent proxy used in sustainability literature (Dorfleitner *et al*., 2015; Maaloul *et al*., 2023; McBrayer, 2018) [2, 11, 14]. Bloomberg calculates the ESG disclosure score out of 100 by combining environmental, social and governance practices (Eng *et al*., 2022; Machmuddah & Wardhani, 2020) [3, 12]. The higher score indicates better disclosure.

Analysis: The present study is descriptive in nature as the study answers both research questions using descriptive analysis. The data were analysed using the trend analysis. The researcher used software such as Microsoft Excel and Stata to process and analyse data.

Results and Discussion

Overall ESG disclosure score

The researcher analysed the ESG disclosure score of selected Non-financial Indian companies to understand the sustainability performance of selected companies. Bloomberg database gives a combined score of ESG and individual scores of environment, social and governance practices. The score lies between 0 and 100; the higher, the better. From 2010 to 2021, the Environmental, Social, and Governance (ESG) disclosure practices of selected non-financial Indian companies have been evaluated using data extracted from the Bloomberg database, encompassing 113 companies. Figure 1 shows year-wise company ESG disclosure scores in the circle and mean ESG disclosure score with a connected line with diamonds.

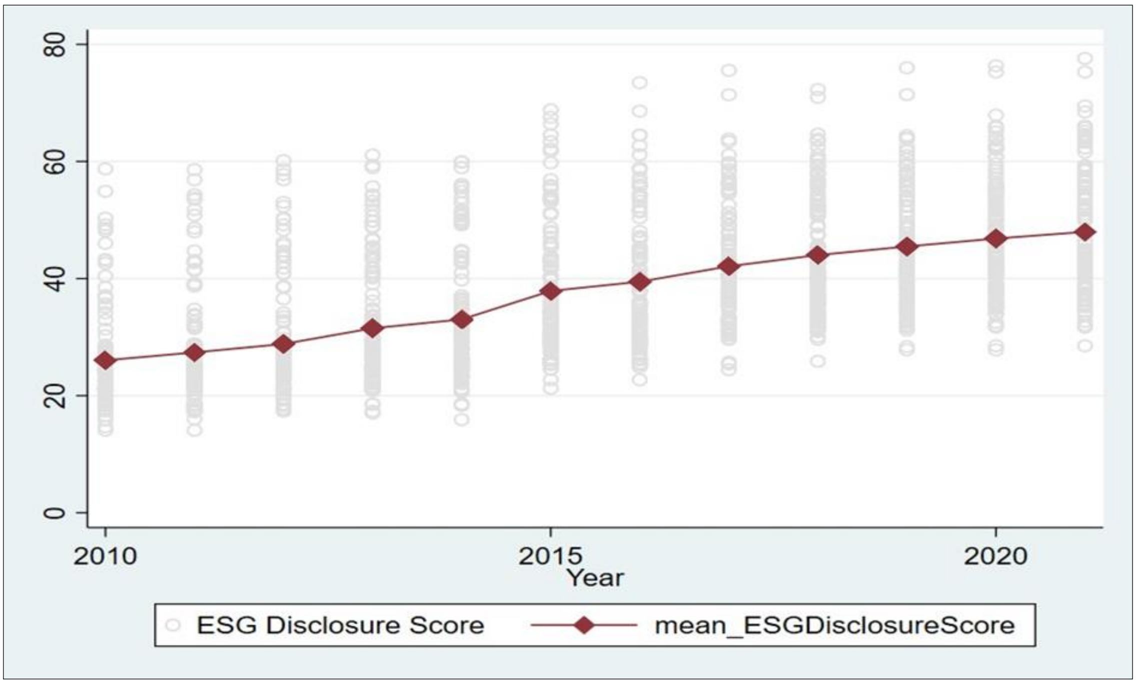

Fig 1: Year wise ESG disclosure score

The ESG disclosure scores analysis, visualised in a comprehensive graph, reveals a generally modest performance across the observed period. Despite a gradual increase in awareness and reporting, the maximum ESG score recorded is below 80, indicating that no company has achieved exemplary standards of ESG disclosure. Furthermore, instances of scores exceeding 60 are minimal, underscoring a prevalent deficiency in robust ESG practices among these companies. The average ESG score started below 30 in 2010, gradually increased to 40 by 2016, and remains below 50 in 2021, reflecting a persistent shortfall in comprehensive ESG incorporation. While there have been slower improvements year by year, the overall average ESG score remains suboptimal, reflecting a need for enhanced efforts in corporate sustainability. Several factors contribute to this underperformance, including a lack of standardised ESG reporting frameworks, insufficient stakeholder pressure, and a general lack of awareness and expertise in ESG principles within the corporate sector. Additionally, companies may face resource constraints and prioritise financial performance over sustainability initiatives, further hindering their ESG disclosure efforts. This trend highlights the necessity for Indian companies to adopt more rigorous ESG frameworks and reporting mechanisms to meet global standards and stakeholder expectations.

Dimensions-wise ESG disclosure score

As mentioned, the ESG score is the combined score of environmental, social, and governance practices. The researcher analysed the individual scores to gain a better understanding of each element. Further analysis of the individual ESG components, depicted in three separate graphs, reveals even more concerning trends. Figure 2 shows the company's year-wise environmental disclosure scores in the circle and the mean environmental disclosure score with a connected line with diamonds.

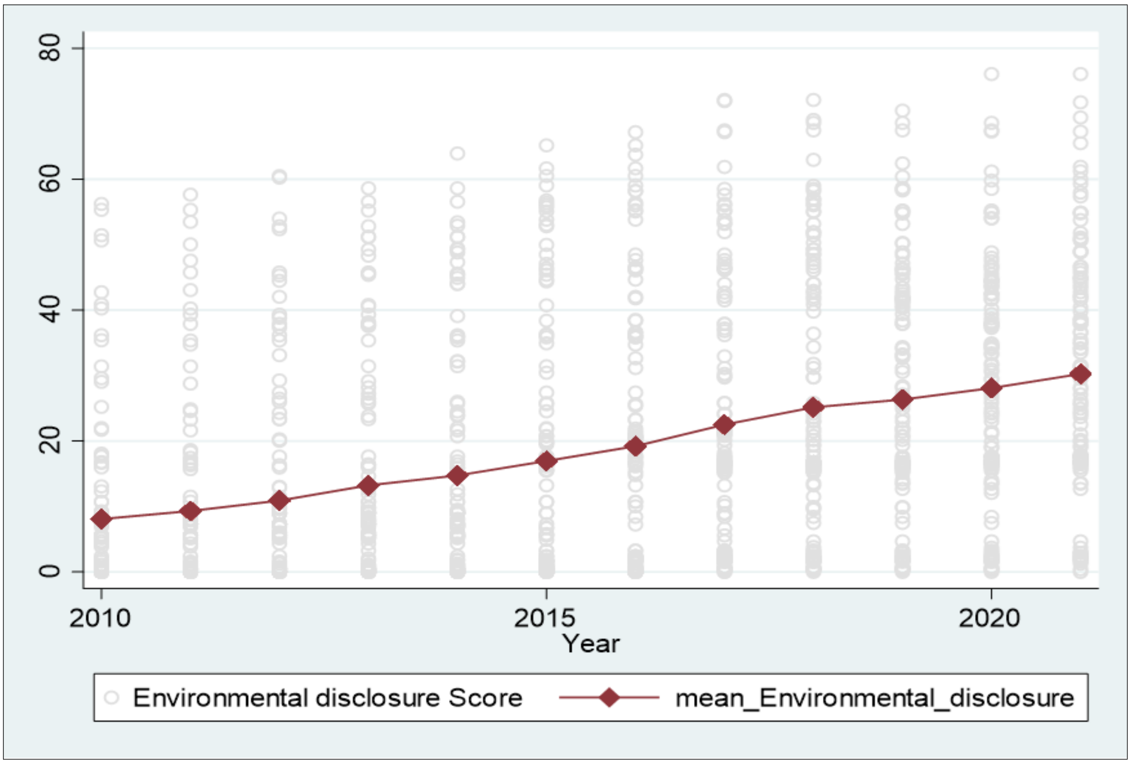

Fig 2: Year wise environmental disclosure score

The average environmental score started below 10 in 2010, reached 20 in 2016, and is only around 30 in 2021; however, it shows an increasing trend. Observations of environmental scores above 60 are exceedingly rare, and the maximum value over the year is restricted to below 80. Hence, the graph indicates a severe lag in addressing environmental issues, likely due to insufficient regulatory enforcement, a lack of corporate focus on environmental sustainability, and limited investment in green technologies and practices. This trend accentuates the critical need for stronger environmental policies and corporate commitment to sustainability to enhance environmental commitment and the overall ESG performance of Indian companies.

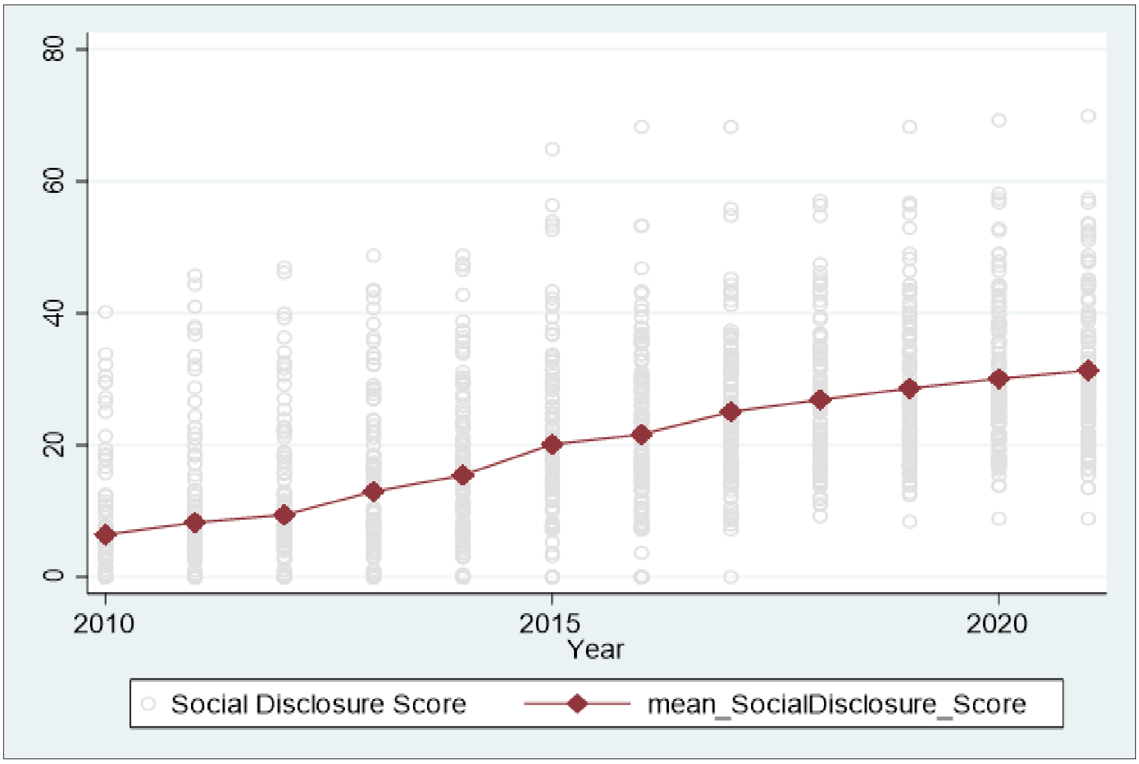

Fig 3: Year wise Social disclosure score

Figure 3 depicts the status of the social disclosure score, which also shows the inadequate social practices of selected companies. The data shows that the mean social disclosure score has gradually improved over the 12 years. The social score also shows an increasing trend, although it is deficient. The average social disclosure score started below 10 in 2010, reaching approximately 20 by 2015. Despite the upward trend, by 2021, the average environmental disclosure score is still below 30, indicating that the overall level of social disclosure remains relatively weak. The environmental scores are widely dispersed yearly, but very few companies have scores above 60, emphasising that most companies still do not excel in social disclosure. The scarcity of higher scores indicates that while there is some progress, most of the companies have not yet adopted comprehensive and transparent social practices. Though India is the first ever country in which the government mandated CSR, the social dimension of selected companies shows poor performance. This underperformance may be attributed to weak regulatory pressure, limited stakeholder demand, and inadequate internal focus on corporate social practices. Though there is an increasing trend in social disclosure, significant considerations and improvements are necessary to meet the standards and to ensure transparent social practices.

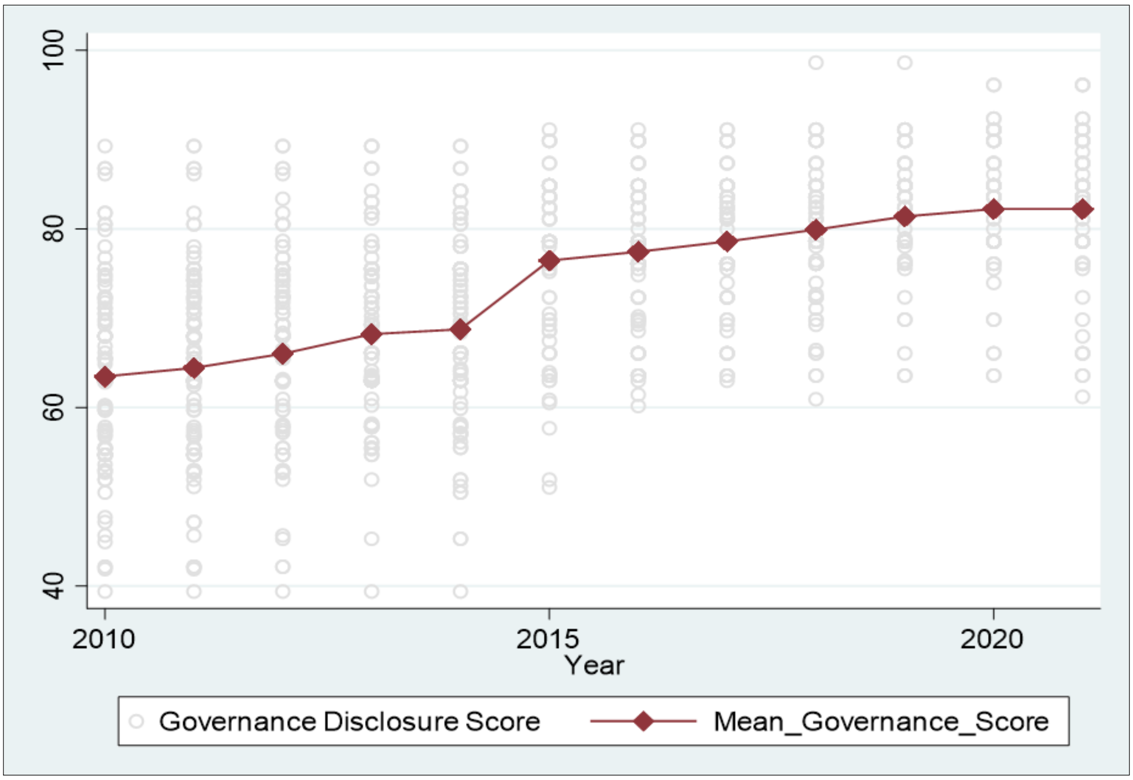

Fig 4: Year wise Governance disclosure score

Finally, figure 4 indicates the governance practices of selected companies. Comparatively, the governance practices have better scores, indicating the superiority of corporate governance practices in selected companies. The average governance disclosure score started from above 60 in 2010 and reached around 70 in 2014, and it further increased to 80 in 2018 and shows above 80 in 2019 onwards. There was a remarkable surge in the average governance score in 2015, possibly due to the implementation of LODR and the Companies Act 2013. Governance practices indicate a better position than social and environmental practices. All the companies have a governance score above 60 from 2016 onwards. The graph also depicts observations above 80, indicating higher disclosure levels that are not found in environmental and social disclosure.

Conclusion

The immense destruction of nature due to insatiable human greed since industrialisation has pushed the world dangerously close to a breaking point. Though the UN came up with the 2030 agenda and SDGs, serious efforts to attain the goals are pending. Countries have not been ambitious enough to meet their climate change commitments. Urgent implementation of stringent and robust sustainability practices and standards worldwide is essential to save the planet for future generations, as we have already surpassed the tipping point of irreversible change. Therefore, it is crucial to understand the level of corporate sustainability practices and the trend that has been realised over the years around the world, especially in emerging country context.

The ESG practices of selected companies show an increasing trend, though it is not up to standards. The combined score of ESG and individual scores of environmental and social scores shows that they are not up to mark and need special attention. Governance practices are comparatively outperforming the environmental and social aspects. Though there is an increasing trend in ESG disclosure scores, the lack of higher scores suggests the inadequacy of transparent and comprehensive sustainability practices among Indian companies. The main reason may be the initial cost attributed to incorporating sustainability practices in production and related functions. Likewise, the demand from stakeholders may also less. The investors are not aware of and lack the importance of sustainability performance for long-term success rather, they may prioritise short-term profit.

Regulators have to ensure sustainability practices among the companies by incorporating standards and implementing auditing of sustainability practices beyond just mandating sustainability reporting. Companies have recognised the importance of long-term existence and success and the problems of short-termism. Further, investors should demand better sustainability information that is suitable to incorporate when making investment decisions. Likewise, investors have to consider sustainability elements when selecting portfolios. Investment platforms should provide non-financial information along with financial indicators like ROA and ROE.

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