Business Responsible Reporting and Environmental Social and Governance Disclosures: Current status & Challenges in India

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Abstract *: The essential feature of capitalism is giving priority to financial performance of enterprises and gives least priority to non-economic factors like social responsibility. But the sustainability of enterprises is not only byproduct of financial performance but also social, environmental and governance performance. Investors, stakeholders, and regulators of the market are consistently asking for more disclosures related to organization performance related to environmental, social and governance (ESG) for evaluating the risk. As more disclosure bring transparency, which leads to better accountability and finally impact the organization's sustainability performance. Business responsible reporting is the source of business social responsible performance. The responsible reporting or sustainable reporting are more evolved and voluntarily adopt in most of a developed country. Internationally organization and regulator are working towards business responsible reporting standards, principles and disclosures practices. Developing nations like India, the business responsibility reporting is mandated by market regulator to large organizations as per market cap.*

The objective of this paper was to study the business responsible reports (BRR) of India's Nifty index constituent 100 companies, compares with internationals best disclosure practices related to sustainable reporting. The study used the content analysis by exploring annual report of sample companies. The study concluded that there is scope for improvement in terms of Indian BRR as compare to international standards. The study is useful for regulators for further strengthening the BRR. The institutional investor can understand the current situation of the BRR from this study while integration ESG information from BRR to their investment decision making. As per the literature review the study is first of its kind which analyze business responsible reporting as per the prescribe principles. The study can be useful for investors as well as policy makers.

Keywords - *Business Responsible Reporting, ESG disclosures, Corporate Sustainability, Regulations, Accountability*

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1. INTRODUCTION:

In 21st century, investors are not only interested into financial numbers but also to the sustainability of company. Mr. Mervyn King who presented the first modern corporate governance code (famously called King Report, South Africa,1993) and strong supporter of integrated reporting said: “Quarterly reporting drives short term thinking and myopic view, when investors lose the trust and confidence in the company, value destroyed quickly”. The corporate sustainability is to create long term stakeholder value without comprising the current generation need. To fully understand a company's sustainable future, the analysis must extend beyond balance sheet analysis and look into environmental, social, and governance risk and opportunity. The recent scientific evidence towards climate change poses a serious question of survival of all stakeholders of the ecosystem. The social challenges such as wealth inequality, social injustice, poverty, labor agitation, social resistance are serious threats to company performance and existence. Corporate governance failure is proving fiasco for not only to the corporate world but also to the regulator of securities markets. So there is an urgent need to look into environmental, social, and corporate governance aspects seriously by corporate as well as regulators.

To address the issue of corporate sustainability by making business more responsible towards non-financial factors by disclosing its environmental, social and corporate governance risk. Government, regulators, and local bodies across the world are consistently put in place various guidelines, codes and framework which address the disclosure standard of ESG (Environmental, Social, Governance) factors. Because of these consistent efforts, business responsible reporting has been evolved significantly over the last two decades. Globally there are number of sustainability reporting standards, codes and principles such as Sustainability Reporting Standards (GRI), UN Global Compact Guideline and SDGs (Sustainable development goals), UN Principle of responsible investing (UNPRI), International Integrated Reporting Council (IIRC) framework, the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting standard board (SASB).

In India, the first voluntary guideline on corporate social responsibility issued by the ministry of corporate affairs in 2009. The government objective of the guidelines was to encourage the Indian corporates to adopt social responsibility practices. In 2011, For further enhancement and to sharpen the focus of the guidelines, the Indian ministry of corporate affairs set up the expert committee which came out with the NVGs (National Voluntary Guidelines) on social, environmental and economic responsibilities of business. The revised NVGs consist of nine principles-based comprehensive guidelines which cover environmental, social, governance, and economic responsibilities of business in India (Mahajan, 2017)

Soon after the launch of NVGs principles by Ministry of corporate affairs India, SEBI passed the resolution for mandatory business responsibility reporting (BRR)for listed companies from the fiscal year 2013-14. The BRR first mandatory applied to 100 top listed companies as per market capital for fiscal year 2013-14[1]. The companies, along with annual reports, has to file Business Responsible Report (BRR) about the environment and social responsibility. As per the amended SEBI LODR (Listing Obligation and Disclosure Requirement), BRR will be mandatory to be part of annual filing for the top 500 listed companies as per market capitalization with effect from 1st April 2016. The BRR is based on

[1] SEBI Circular dated 13 August 2012, CIR/CFD/DIL/8/2012

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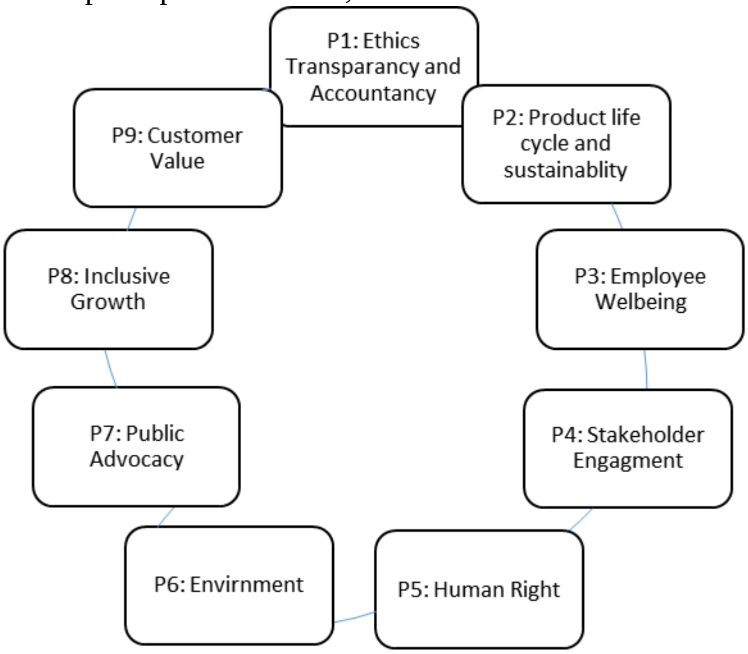
NVGs nine principles, which includes ESG factors. The BRR is based on Apply or explained framework. The SEBI also mentioned the disclosure format for BRR reporting. Although SEBI asks mandatory BRR disclosure to few listed companies but it also encourages to all listed companies to voluntary adapt to the practice. SEBI also discussed in its subsequent order about the integrated reporting of a financial and non-financial variable in a more accurate and timely manner which will help an investor to take an investment decision. The BRR is based on NVGs nine principles which are;



2. Review of Literature:

Business responsibility reporting has been extensively researched in developed countries. In recent time due to demand from researchers, international civil societies, and organizations the pressure is increasing on companies and the government to consider sustainable practices and disclosures related to it. In developing countries, regulators tries to emphasis corporate responsibility reporting. In most of the developed countries, especially European union companies, is publishing the responsibility reports for the last four decades. Due to which the large number of literature and empirical research are available for developed countries. In developing countries, empirical research on responsibility reporting are getting momentum.

The origin of non-financial disclosure by companies is in 1970. Top multinational companies started publishing information related to employees' welfare, equal opportunity, social welfare, and philanthropic work due to regulation and shareholder demand. The information was disclosed along with the annual report by big multinationals companies, which attracted researchers for first time detail analysis of corporate non-financial disclosures. (Abbott & Manson, 1979; Bowman & Haire 1976). The early studies were concentrated on social disclosures and its analysis, but from 1980 corporates slowly started publishing the environmental disclosures as well (Ingram and Frazier, 1980; Chen and Metcalf, 1980; Wiseman, 1982; Rockness, 1985; Freedman and Jaggi, 1988).

Elkington in 1997 gave the philosophy of triple bottom line that is people, planet and profit which become famous among institutional investors, shareholders and regulators (Elkington J, 2013). At the beginning of 21st-century corporate sustainability and sustainability reporting got recognition among corporate shareholders and disclosures related to non-financial variables are recognized as corporate sustainability reporting, corporate social responsibility or corporate citizenship report. The majority of old studies were based on developed countries especially US and Europe and the objective of empirical research was to evaluate the, quality of disclosures, shareholder or managerial attitude towards non-financial disclosures, impact evaluation or evaluating relationship between non-financial disclosures and financial performance (Fifka, M. S. 2013).

The literature related to Asian countries publishes after 2000 due to the internationalization of social responsibility reporting. The early studies for Asian market was based on content analysis by evaluating the balance sheet and collecting the data related to non-financial disclosures. (Chapple and moon, 2005) concluded in their study, the internalization of sustainability reporting first attract or inforce the multinational companies to adhere with the international reporting standards in South Asia. Fifka, M. S. (2013) evaluated 186 studies on responsibility reporting and concluded that due to lack of harmonized standards during early days of reporting evolutions, most of the study were on large corporation and methodology used was content analysis. But in recent time, corporates are incorporating international practices and standards of sustainability reporting due to which there is scope of research not only for cross country studies but also study related to medium and small size enterprises. De Klerk, M., & de Villiers, C. (2012) studied the relevance of business responsibility reporting for investment decision making. The study used the Ohalson model to examine role of BRR to provide information to shareholders and concluded that the higher level of responsibility reporting disclosure results into higher share price or market value of equity.

3. RESEARCH METHODOLOGY:

The business responsibility reports were first mandatory for 100 listed companies as per market capitalization by SEBI. So this study is based on NSE (National Stock Exchange) 100 companies sample as per the market capitalization for the year 2017-18. The BRR report is the part of the annual report so we have analyzed the BRR annual reports of 100 companies. For the responsible reporting, listed companies can follow the SEBI prescribe format, principle based reporting or integrated reporting. The study first analyzed the pattern of disclosures and different standards followed by the companies. The next part of the study to analyze disclosures related to various principles. The primary data related to each principle was collected. Most of the primary data related to SEBI prescribed BRR are in qualitative form, and few variables were in quantitative form. So the application of any advanced statistical tool for data collected is nullified. So, the study opted the exploratory research methodology, and content analysis as most of the literature followed the same (Fifka, M. S, 2013). The exploratory research methodology is best suited where there is difficulty to fixed any statistical technique and there is more emphasis to draw general hypotheses from the primary data (Yu, C. H. ,1977).

4. RESULTS :

The study was carried out in two aspects, reporting standards based analysis and principle based analysis.

1) *Reporting Standards-based Analysis:*

As per the sample study of the top 100 companies on BRR reporting of Indian companies, observe that although all 100 companies found a complaint to BRR but only 50% of the companies published sustainability report along with BRR report. 50 companies published only BRR reports as per the SEBI guideline. It is crucial to notice that the trend of integrated reporting has been increased from 22 companies for FY 17-18 as compared to 10 companies in FY 16-17.

As per the study, while comparing India's BRR with internationally accepted GRI (Global Reporting initiative), it is observed that BRR of India are not comprehensive as compare to global standards of responsible reporting. While few companies are trying to disclose as per the global standards but the majority of companies need to scale up their reporting to international standards like GRI etc.

2) *Principle based Analysis:*

a) Principle 1: Ethics Transparency and Accountancy

The principle is related to companies' policies relating to ethics, bribery, and corruption. The business should conduct and govern on the basis of ethics, transparency and accountability. The SEBI prescribe format asked two questions mainly, one is a polar question about the existence of policy relating to principles 1 and second question is about a number of complained received. The disclosure generated under this principle cannot be quantified because the question about policy has to answer in yes or no, so data generated in qualitative form. So there is a need to make it standardized and quantifiable. The principle also seeks disclosure related to a number of complaints by stakeholders. The complaints can be multiple type like grievances, whistleblower complaints, harassments etc. So the principle should give scope to classified the complaints as per its gravity. The study observed that all companies were complaint it this principle.

b) Principle 2: Product Lifecycle

The principle asked companies to disclose about the sustainable source of its inputs and recycling of waste. The company's disclosure to this principle are qualitative nature. Out of 100 companies, only 45 companies disclose the detail procedure and policy without disclosing the quantitative details.

c) Principle 3: Employee Wellbeing

The aim of the principle is, a business should promote and maintain the wellbeing of employees. The company should disclose the gender ratio, sexual harassment complaint, child labor and discriminatory employment. As per the study found there is no complaint reported regarding child labor. The number of sexual harassment complained was highest in the Banking and IT sector, and reason may be the highest number of women employees as compare to other sectors.

d) Principle 4: Stakeholder Engagement

The company should be responsible not only to its shareholders but also to all stakeholders internal or external. BRR asked to disclosure about marginalized and disadvantage stakeholders. The study observed that almost all companies have mapped their stakeholder.

e) Principle 5: Human Rights

The business should promote and respect human rights. Under BRR, the disclosure policy requirements relating to human rights and complaint received for human rights violation. Under the principle 1 disclosure related to policies and complaints had been asked so this principle can be merged with principle 1.

f) Principle 6: Environment

Due to the climate change environment becoming one of the important risk factor for the companies. As per the study, it revealed that although all companies have identified their environmental risk only 40% of the companies are adherent to clean development mechanisms. As per the GRI the data related to GHG (Green House Gass) emission has been asked, which is missing in BRR reports in India.

g) Principle 7: Public Advocacy

Business if want to influence any government or regulatory policy by trade association or chambers should do in a responsible manner. The data related to the detail of companies' membership in an association or in chambers are qualitative nature, and all companies disclosed it.

h) Principle 8: Inclusive Growth

The principle give importance to inclusive growth and equitable development to all its stakeholders. The principle mainly deals with data related to CSR (corporate social responsibility) policy, expenditure, nature of expenditure and reseon for unspent amount. As per the study most of the CSR expenditure done on education, livelihood and vocational training.

i) Principle 9: Customer value

A company should engage with costumer in responsible manner. BRR asked to disclose data related to customers and consumers complained. As per the study 83 out of 100 companies carried out the survey for customer feedback for FY 17-18.

5. CONCLUSION & SUGGESTIONS:

As the principle based content analysis of top hundred companies the study concluded that Indian companies are disclosing the information as per SEBI mandated format. As per the international standards the SEBI BRR require to scale up.

There are following suggestions to make BRR effective and at the level of international best practices:

1. Making awareness among institutional investors, Asset manager and companies about the importance of ESG reporting and how to incorporate the ESG factors in investment decision making.

2. Instead of disclosure of too many variables, the regulator should concentrate on the quality and reliability of data. The ESG disclosure should become more scientific and fact-based rather than art of making reports.

3. For investors for comparing with companies, the data type and disclosure should be standardize so that it can be compared and used for more advanced study.

4. Although in India, companies are complaint under different regulators, the same kind of data can be disclosed under BRR. For example data related to waste management are share by companies to central and state boards of pollution control, which can be useful for principle 2 of BRR. The integration of different regulators related to the environment, social and corporate governance for forming more robust and comprehensive BRR will lead into effective reporting and which will serve the purpose.

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