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ESG reporting and responsible investing: A study with reference listed companies with Bombay stock exchange

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Abstract
The ESG reporting is gaining momentum with the stakeholders namely the investing public, customers and the Governments at large. The companies are looking at ESG reporting to be a Sustainable Competitive Advantage Strategy. There is a paradigm shift that needs to Brought about in the mindsets of investors that ESG metrics are competitive enough to the conventional portfolio. The Indian Companies Act, 2013 is a landmark initiative of the Government wherein the organisations operating in Indian soil must necessarily cough up two percent of three years average profit (Sec.135). This is the firm determination of the Government to deal with the organizations that were evading from the social responsibility initiatives. Thanks to the Government of India initiative. Further, the modalities of two percent spending with the variables of transparency and accountability is a right measure on the part of the central government to tame the organization and fall in line with the correct channelizing of CSR amount. The present article is an account of the micro level fundamental study of the BSE listed companies who have undertaken the ESG reporting and Responsible Investment.

Keywords: institutional investors, sustainability, growth

Introduction

ESG stands for environmental, social, and governance, but the truth is, Indian scenarios in terms ESG reporting and responsible investment nobody quite knows yet and what exactly should go into an ESG report. Of course, some companies (usually Listed Companies that have an obligation to produce ESG reports as part of their annual reports) and asset managers, fund managers, wealth managers, financial advisors and portfolio manager have accumulated significant experience with ESG, but this area is relatively new and is still developing. The emerging concept of Corporate Social Responsibility (CSR) goes beyond charity and requires the company to act beyond its legal obligations and to integrated social, environmental and ethical concerns into company's business process. Indian companies too have made their way into the business boom and are today globally acknowledged as major players. India is currently amongst the fastest growing countries in the world. The globalization and liberalization of the Indian economy has helped in stepping up growth rates. Integration of the Indian with the global economy has also resulted in Indian businesses opening to international competition and thereby increasing their operations. ESG usually pairs with responsible investing (RI). Many PE firms—again, typically large ones-have also adopted responsible investing (RI) polices as a part of their investment programs. These policies often include a focus on ESG factors, including risks and opportunities, affecting both fund and portfolio companies. After analyzed the public companies that are listed in Bombay Sock Exchange under equity category, 4,413 companies are actively trading which include all categories of market capitalization. Among these companies hardly 2% of the companies are meeting the global standards in terms of listing in major indices, market capitalization, ESG reporting and responsible investing.

Review of Literature

1. Mariya Stefanova (2015) [2] in her research book "Private Equity Accounting, Investor reporting, and beyond analyzed. Her analysis is all about knowing your risks—negative and positive-and managing those risks to minimize negative risks and take advantage of the positive risks by implementing different ESG/RE programs and quantifying the effect of those programs. guide to private equity accounting, investor reporting, valuations and performance measurement provides a complete update to reflect the latest standards and best practices, as well as the author's unique experience teaching hundreds of fund professionals.
2. Sonali Soni (2016) describes the key component of CSR and explains the different emerging concepts of CSR related aspects. Also, she examined the companies that are facing increased pressure for transparency and accountability, being placed on them by their employees, customers, shareholders, media and civil society.
3. Ravi Sreedharan (2019) explained about how important Social Responsibility to the millennial is, the latest trends in ensuring the sustainability of development projects and challenge the Assurance can help to address in terms of maximizing the potential of CSR projects, the complex problems of the society need leaders who want to invest their time in building world class social purpose organizations and creating sustainable change.

4. V Reddappa and C Dheeraja in the article “Six Essential Steps in Implementing CSR” mainly aims at fulfilling two long felt needs – providing sufficient depth for an understanding of various facets of CSR and serving as a blue print in the implementation of CSR. The book adopts ‘handholding and guiding’ approach in helping the student/practitioner in various steps involved in practicing the CSR.
5. Gilbert S. Hedstron illustrates Sustainability as the use of the Scorecard with hundreds of examples. He discusses sustainability transformation, governance, and strategy and execution. Social responsibility and environmental stewardship form important parts of his discourse in this important contribution to the debate on sustainability that will benefit business executives and those interested in sustainability and business.

Objective of the study
1. To understand the ESG reporting and Responsibility Investing
2. To analyses of ESG reporting and responsible investing of BSE listed companies
3. To suggest sustainable measures to create awareness and opportunities of standardized ESG reporting as part of BSE listed companies.

Methodology
This study gives details relating to methodology adopted in the present study towards fulfilling the objectives stated above. The present study is based on secondary sources of data for the latest available period was collected from Bombay Stock Exchange, India CSR, National CSR and Ministry of Corporate Affairs etc. Our study is restricted to the public companies that are listed in BSE and Market capitalization is more than $5Million. This study used tools percentage and graphical representation.

Importance of ESG and RI
One reason to incorporate responsible investment strategies is that ESG-related risks and opportunities (and corresponding innovation and competitive advantages) are not usually captured by traditional financial analysis. PE managers are missing out on the benefits or are overlooking the risks associated with them. Analyzing ESG factors for a company, sector, and geography level can help investors identify valuable investment opportunities and improve their understanding of potential risks in an investment.
Some of the drivers behind a potential RI and ESG implementation are listed here:
Increasing regulation/legislation:
- The Companies Act, 2013 has formulated Section 135, Companies (Corporate Social Responsibility) Rules, 2014 and Schedule VII which prescribes mandatory provisions for Companies to fulfil their CSR.
- EU Green House Gas (GHG) emissions reduction policy
- UN Principles for Responsible Investment (UN PRI)
- Required to obtain Director Identification Number (DIN) before and while serving as a director on the board of any company, agencies implementing CSR programmed for companies will have to register with the MCA and they will be assigned identification numbers.
- UN Global Compact
- In line with Sustainable development Goals (SDG, s)
- Stakeholders pressure:
- Investors/limited partners (LPs)
- Nongovernmental organizations (NGOs)
- Employees
- Media
- General public

Potential material impact of ESG factors and value creation
- Investors are considering both futuristic negative impact of the lack or ineffective management and positive effects of a structural implemented ESG program.
- futuristic negative impact of the lack or ineffective management or nonexistent ESG management include the following:
- Reputational risk
- Litigation costs
- Share price depreciation (more for public companies)
- Local community or employee actions (such as strikes)
- Consumer concerns

Potential positive effects of good ESG management include these
- Cost reduction (through energy savings, recycling, resource efficiency, and so on)
- Revenue generation
- Increased brand loyalty
- Increased shareholder value
- Better working environment, which potentially leads to more efficiencies, ultimately leading to revenue generation
- Strong employee morale and loyalty
- Ability to attract and retain employees, customers, and suppliers
- Risk and opportunity management across the portfolio
- Market leadership

As you can see, both negative and positive effects can have a significant impact on the portfolio companies a PE firm owns and, ultimately, can impact the value of the investment.

Analysis and discussion

Table 1: Total listed companies in BSE under business sectors wise

SlNo	Business Sectors	Number of Compnies	Sl. No	Business Sectors	Number of Compnies
1	Applied Resources	153	15	Insurance	9
2	Automobiles & Auto Parts	139	16	Investment Holding Companies	30
3	Banking & Investment Services	662	17	Mineral Resources	326
4	Chemicals	279	18	Personal & Household Products	36

5	Collective Investments	11	19	Pharma & Medical Research	174
6	Cyclical Consumer Products	544	20	Real Estate	177
7	Cyclical Consumer Services	190	21	Renewable Energy	15
8	Energy - Fossil Fuels	73	22	Retailers	43
9	Food & Beverages	283	23	Software & IT Services	203
10	Food & Drug Retailing	21	24	Technology Equipment	74
11	Healthcare Services & Equipment	43	25	Telecommunications Services	15
12	Industrial & Commercial Services	258	26	Transportation	63
13	Industrial Conglomerates	8	27	Utilities	46
14	Industrial Goods	268	28	Other	270
Grand Total			4,413		

Banking and investment services are the major business sectors and followed by cyclical consumer product (FMCG), they are key economic drivers of the country and larger trading companies as part of Bombay Stock Exchange.

Table 2: Categories as per CSR reporting and provision

Category of companies	Number of companies	Percentage
*Global Benchmark in CSR	115	3
Average Negative Profit	783	18
Market Capitalization less than $5 Million	1476	33
CSR Provision Eligible companies**	2153	49
Total number of companies Listed in BSE	4412	100

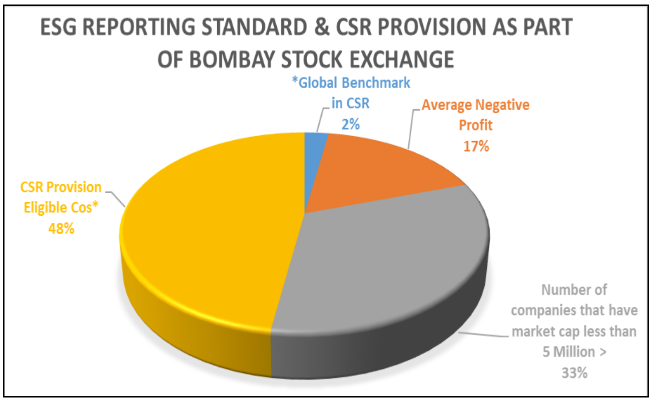

Fig 1

In this section an attempt is made to understand the publicly traded companies as part of Bombay stock exchange. For our study, I have considered the companies that listed in BSE and having more than $5 Million as market capitalization. There are 4,412 companies are active trading in BSE, out of which only 2% of the companies are meeting the global standards in terms of following Global Reporting Initiative (GRI). Using the GRI guidelines to report their ESG data measures and released a separate/section CSR report in the publicly available domain. Also, trading in reputed international indices with prescribed market capitalization along with substantial ESG data in their publicly available websites. Only 48% of the listed companies are eligible as according The Companies Act, 2013 has formulated Section 135, Companies (Corporate Social Responsibility) Rules, 2014 and Schedule VII which prescribes mandatory provisions for Companies to fulfil their CSR. On every Company including its holding or subsidiary having Net worth of Rs. 500 Crore or more, or Turnover of Rs. 1000 crore or more, or Net Profit of Rs. 5 crore or more. Since companies are under negative net profit as another 17% of the companies are not eligible as per companies act that are CSR provision. Remaining 33% of the companies have been excluded from my research due to sources and financial data constraints also, those companies' market is less the $5 million being traded in BSE.

Implementation challenges in India

Implementing an ESG policy and designing a method of ESG reporting involve a number of challenges:

- Lack of strict guidelines and monitoring aspects from the government
- The subject matter is broad and knowing what matters and what doesn't can be difficult
- People want to report, but they don't necessarily have the right information or processes.
- Implementation might be costly, and the benefits are typically stripped after years.

Table 3: ESG issues

Environmental	Social	Governance
Greenhouse Gas Emissions	Whistleblower Protection	Board Cultural Diversity
VOC or Particulate Matter Emissions Reduction	Policy Community Involvement	Female on Board
Waste management	Donations Total	Succession Plan
Environmental Expenditures Investments	Human Rights Policy	Board Background and Skills
Policy Emissions	Policy Child Labor	Policy Board Independence
Water Pollutant Emissions	Policy Human Rights	Policy Board Diversity
e-Waste Reduction	Customer Satisfaction	Highest Remuneration Package
Environmental Expenditures	Health and safety	CEO Compensation Link to TSR

Model procedure for RI and ESG implementation

If you are now convinced that you need an IR and ESG policy and that you should be doing ESG reporting, you will have to consider how to implement a plan. This section offers a sample IR and ESG implementation procedure.

Stage 1: Create a responsible investment policy

First, you need to define a broader framework you will be operating in. A well-defined RI policy provides guidance on and support for ESG decision making in investment processes and portfolio management. It also serves as a basis for reporting to LPs and other stakeholders.

Formulating the RI policy is the first step toward RI and ESG. Examples of questions to ask when formulating the RI policy

1. Why do we believe ESG is important?
2. Will we focus on all aspect of ESG or just a subset?
3. What ESG attention do the industries in which we invest require?
4. What do our key stakeholder require?
5. What do our typical investment?
6. Do our goals match our resource?

   As part of this process, you must outline an approach to ESG management.

Stage 2: Identifying Specific ESG Indicators and Risks

After the broader RI and ESG policy has been established, it needs to be put in practice and integrated into a formal system. Systems and processes need to be put in place to consider and monitor a range of ESG issues within the investment process.

Link ESG Factors with Financial Performance

Simply put, for an ESG program to be effective, the benefits should outweigh the costs. This should be clearly demonstrated to justify the implementation of an ESG program. The challenge is that many of the ESG goals and impact are hard to quantify, so an attempt to link these ESG factors with financial performance should be made.

Stage 3: Implementing ESG Objectives and execute ESG policy and Processes in Place

After you have proven the benefits of a potential RI and ESG project, putting systems and processes in place is an important part of the implementation stage. Drafting detailed procedures is also part of the process. Remember that you are taking a long-term perspective, so do not despair if immediate gratification is not available.

Stage 4: Evaluating existing portfolio companies for ESG Factors and Identifying ESG Factors and Risks

After you have drafted and put in place all the procedures, a formal assessment of the existing portfolio companies needs to be undergone to establish the ESG risks for each portfolio company

Stage 5: Integrating ESG management into the Investment Process: Brief Study on HDFC Bank Ltd and ESG management

I recently verified a HDFC Bank Ltd Sustainability Report 2017-18 as a good example of RI and ESG and studied their RI and ESG practices. I think what they have done could serve as a blueprint in this area to be used by other lending managers. From their Sustainability report, it is clear they believe that in the current environment unlocking value often includes thoughtful management of ESG-related issues (Environment, Health and Safety). What they do is look at the portfolio companies' operations and how they can improve efficiencies and drive positive change, whether through environmental impact, in their supply chain, or among their employees.

HDFC Bank Ltd follows an effective two-phase process, explained below.

Phase 1: Considering ESG issues during the pre investment phase

For all loans exceeding` 10 Crore in the amount and five years in tenure, borrowers must submit a declaration of compliance with EHS norms. The due diligence process also includes a review of how potential portfolio companies manage or are affected by ESG issues. A team of internal subject matter experts reviews prospective investments to identify material ESG factors and works with investment teams and external consultants to gather the appropriate information to make informed recommendations about potential risks and opportunities.

Phase 2: Considering ESG issues during the investment process

In select large-ticket projects, the Bank appoints a Lender's Independent Engineer (LIE) who conducts due diligence across several parameters including EHS. The findings of the LIE's assessment report are then discussed with the client to ensure compliance. Bottom line: The ESG management process must be followed, from the initial due diligence on an investment to the realization of that investment.

Stage 6: Implementing specific ESG programs for each portfolio company

To put everything into practice, ESG programs need to be implemented for each portfolio company, based on the ESG risks identified in Stage 4 discussed earlier.

HDFC Bank serves as an excellent example of the successful implementation of a great variety of ESG programs, including their Green Portfolio Program, Responsible Sourcing Initiative.

Stage 7: Set key performance indicators (KPIs) and start measuring against them

Having an ESG program is good, but it does not mean much without some tangible way to measure the success of the program. You must set some key performance indicators (KPIs) and start measuring against them.

Consider this suggested abbreviated procedure for implementing KPIs:

- Select appropriate KPIs.
- Establish metrics and a baseline.
- Develop goals and an action plan.
- Measure and report the results.

This process is not without its challenges. Just bear in mind that the ESG initiatives can be measured financially, but they should also be measured in terms of ESG terms because some are hard to quantify in financial terms. In any case, KPIs should be defined. As indicators of performance, ESG KPIs can be used to monitor improvements within the portfolio companies. They are also a good indicator of how well a policy is being implemented within a portfolio company. It is worth analyzing KPI data in the long run to establish trends and areas of poor performance.

Table 4: Below Table shows an example of ESG KPIs.

ESG Aspect	**ESG K P I**
Environmental	Emissions of carbon dioxide (tons CO_2 per year) Amount of waste recycled (in tons)
Social	Staff turnover figure Number of reportable health and safety incidents Minimum wage Number of sick days per person
Governance	Number of staff trained in anticorruption Number of board meetings attended by PE firm staff

Stage 8: ESG Reporting

As a final stage of implementing your RI and ESG program, you need to think about how to communicate to your stakeholders. Increased transparency is at the heart of ESG reporting. Therefore, as part of the overall RI program of a GP, enough attention should be given to the ESG reporting and the information shared with shareholders, including LPs and the general public. The goal is to increase the information flow but not overwhelm stakeholders with information, so the ESG report needs to be tailored depending on their needs. Portfolio-Level Information Flow Process Implementation Public companies should ensure that they establish a process of information flow from the portfolio companies so that they can monitor and improve ESG performance. Monitoring ESG performance allows data to be tracked and then communicated back to the relevant stakeholders, so it is important to have adequate procedures and systems in place to ensure an effective and timely information flow.

Suggestion and conclusion

The research study is based on the listed public companies in Bombay Stock Exchange in India. The result of the study evidenced that most of the companies are not in line with global standards in terms of ESG reporting and there is no proper standard or not awareness about the ESG and responsible investment concepts. I would suggest following the best way and easy steps to implementation of RI and ESG concept into companies' strategic goal, this drive the long-term success and providing various ways to minimize their risk in future. Some people who are not familiar with ESG think that it is just a bunch of useless policies designed to make PE funds look good to investors and to the general public. It's much more than that. There are benefits in ESG for even the most profit-driven public companies. It's about knowing your risks-negative and positive-and managing those risks to minimize negative risks and take advantage of the positive risks by implementing different ESG/RE programs and quantifying the effect of those programs. And at the end of the day, what is so bad about looking after the environment, improving the lives of the employees of your portfolio companies, and helping local communities along with making profits?

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