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Business Responsibility and Sustainability Reporting: A Way Forward for Indian Corporate Disclosure

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ABSTRACT

Business Responsibility and Sustainability Reporting (BRSR), from an Environmental, Social and Governance (ESG) perspective, is intended to enable businesses to engage more meaningfully with their stakeholders. It will encourage companies to go beyond regulatory financial compliance and report on their social and environmental impacts. The BRSR will be applicable to the top 1000 listed entities (by market capitalization), for reporting on a voluntary basis for FY 2021-22 and from FY 2022-23 on a compulsory basis. The ESG goals are sets of standards for a company's operations that force companies to follow better governance, ethical practices, environment-friendly measures and social responsibility. Sustainability reporting will improve corporate reputation; build consumer confidence, increase innovation, and even improvement of risk management. The environmental criteria of BRSR will consider how a company performs as a steward of nature. Social criteria will consider how the company manages relationships with employees, suppliers, customers, and the communities where it operates. Finally, the governance aspects will deal with a company's leadership, executive pay, audits, internal controls, and shareholder rights. While the recommendations spell out elaborate content for companies that were already covered, the real challenge will also be for those who are absolutely new to this reporting requirement. The actual filling and filing of BRSR procedures have yet to be resolved and looking at the list of details, it's clear that quantifying and qualifying data to fit the reporting format is difficult for businesses.

1. INTRODUCTION

In the current environment, major investing companies worldwide evaluate non-financial facts before investing in any new endeavour or project. It fosters trust among business stakeholders such as financial and capital sources, customers, regulatory agencies, suppliers and manufacturers, and workforces impacted by the company's operations, civil society and the general public. In recent years, sustainability reporting has become an increasingly important component of integrated reporting, combining financial and non-financial parameters, including an overview of a company's commercial, environmental, and social impacts from routine business operations and endeavours. The picture of sustainability reporting is rapidly changing worldwide as sustainable development and climate change initiatives gain traction.

The push from investors has further accelerated this movement, and companies now must report their sustainability performance to maintain transparency with stakeholders. Sustainability reporting frameworks have evolved, and companies worldwide have adopted these frameworks for measuring, monitoring, and disclosing performance in Environmental, Social, and Governance (ESG) areas. The BRSR Framework is India's response to the emerging trend of responsible business and the increasing trend of ESG investing. The BRSR format was specified by SEBI which contains nine principles that cover a company's ESG (Environment, Social and Governance) performance. It is developed on the basis of National Guidelines on Responsible Business Conduct (NGRBC) principles and is aligned with

United Nations SDGs, GRI and United Nations Guiding Principles. From investors' perspectives, the adoption of sustainability-centric reporting for companies in India would make India a more attractive destination for investments.

Non-financial reporting is becoming more popular worldwide as corporate operations undergo a paradigm shift from investors' perspective, who place a more significant emphasis on non-financial reporting. The notion of corporate accountability to all stakeholders supports the responsible business philosophy. This was originally put into the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Businesses (NVGs) released in 2011 and later incorporated into the Companies Act of 2013. Organizations are increasingly being recognized as vital components of the social order. They are accountable not only to their shareholders in terms of revenue and profitability but also to society as a whole, which is also their stakeholder. Businesses should communicate the positive effects of their operations and also the negative ones.

This ensures that corporations are held responsible for their social and environmental implications. Business Responsibility Reporting (BRR) is a non-financial reporting mechanism currently employed by many publicly listed companies. Non-financial reporting adheres to the principle of remaining accountable to stakeholders while being environmentally sustainable. There have been various advancements in the field of sustainable reporting worldwide. It was considered that it would be beneficial to update the BRR framework under Indian regulations to align it with global reporting norms.

As a result, on August 11, 2020, MCA released a report from the Committee on Business Responsibility Reporting, in which it recommended various modifications to make BRR a one-stop shop for all non-financial disclosures. In addition, it has expanded the scope of BRR to include BRSR. Some of the few modifications requested for the BRSR framework include details on employee perks, bribery complaints, plant/office site near a protected area, penalty or fee for breach of principles or competition laws, payment of minimum wages, and so on.

However, it was seen that while the large business houses were complying with the extant BRR requirements, there was a lack of parity, as revealed by a study of 490 listed companies was done by the Indian Institute of Corporate Affairs (IICA) for examining the need of a comprehensive format of reporting non-financial indicators. The IICA study reported that due to the absence of standard guidelines, companies were making their own disclosures and had multiple interpretations on the same point. While some of the reports contained a little quantitative data, few were only providing qualitative data. Hence, these issues led to the need for a standardized framework of BRSR.

2. HISTORICAL BACKGROUND OF BRSR

The notion of Business Responsibility and Sustainability Reporting (BRSR) did not appear out of nowhere in the reporting system. It has a long history of global sustainability reporting. In India, with the introduction of Business Responsibility Reporting (BRR) in 2012, Corporate Social Responsibility (CSR) in 2014, Integrated Reporting (IR) in 2017, National Guidelines on Responsible Business Conduct (NGRBC) in 2019, and the Business Responsibility and Sustainability Report (BRSR) in 2021, the reporting landscape has come a long way. In November 2018, the Ministry of Corporate Affairs (MCA) constituted a Committee on Business Responsibility Reporting to finalise business responsibility reporting formats for listed and unlisted companies, based on the framework of the NGRBC.

Therefore, it has taken on the official form, particularly in India, as a result of a chronology of various regulatory pronouncements, which are as follows:

a) In July 2011, MCA released National Voluntary Guidelines (NVGs) for sustainability reporting.
b) In August 2012, SEBI issued a circular for the top 100 listed companies to disclose Business Responsibility Reporting (BRR) in line with National Voluntary Guidelines (NVG).
c) In 2015, United Nations Sustainable

Development Goals 2030 were released.

d) In 2015-16, the applicability of BRR extended to the top 500 listed companies of India.
e) In March 2019, MCA revised the NVG to National Guidelines on Responsible Business Conduct (NGRBC).
f) In December 2019, the applicability of BRR extended to the top 1000 listed companies of India.
g) In August 2020, MCA reported on BRR with the proposed BRSR.
h) In March 2021, the Sustainability Reporting Standards Board of ICAI developed the scoring mechanism of the BRSR.

Through its 'Report of the Committee on Business Responsibility Reporting' (the Committee Report), the Committee recommended that BRR be rechristened BRSR, where disclosures are based on ESG parameters, compelling organisations to holistically engage with stakeholders and go beyond regulatory compliance in terms of business measures and their reporting. The disclosure as per the BRSR framework is made mandatory for the top 1000 listed companies (by market capitalisation) from FY 2022-23, while the disclosure is voluntary for FY 2021-22. Thus, the Committee Report encourages companies to report their performance for FY2021-22 to be better prepared to adopt this framework from FY 2022-23. However, as per SEBI's circular dated 10 May 2021, entities already preparing and disclosing sustainability reports based on internationally accepted reporting frameworks (such as GRI, IR etc.) may cross-refer to disclosures made under these frameworks.

The United Nations Sustainable Development Goals (UNSDG) is a key handler to most sustainability reporting frameworks. Twenty countries have ten or more reporting frameworks in their country, with the United Kingdom having a maximum of 21 of them. As per Carrot and Sticks report (https://www.carrotsandsticks.net/), out of 84 major economies by GDP, there are 614 sustainability reporting instruments, of which 350 are mandatory, and the rest 264 are voluntary. 93% of the world's largest 250 corporations report on their sustainability performance through Global Reporting Initiative (GRI) and is used in over 100 countries to report sustainability. It is developed with true multi-stakeholder contributions and rooted in the public interest. Materiality assessment done globally is the process of identifying and assessing numerous potential environmental, social and governance issues that could affect your business, and/or your stakeholders. Numerous materiality issues are recognized and reported worldwide, the highest being labour-related issues. Major sustainability reporting instruments used across different countries are as below:

a) Global Reporting Initiative (GRI) Sustainability Reporting Standards.
b) International Federation of Accountants (IFAC) ISAE 3000.
c) The Organization for Economic Co-operation and Development (OECD).
d) Guidelines for Multinational Enterprises.
e) The United Nations Global Compact (the Communication on Progress).
f) The International Organization for Standardization (ISO 26000 – International Standard for Social Responsibility).

3. SIGNIFICANCE OF THE STUDY

The BRSR is an initiative towards ensuring investors have access to standardized disclosures on ESG parameters. Access to relevant and comparable information will enable investors to identify and assess sustainability-related risks and opportunities of companies and make better investment decisions. At the same time, companies will be able to better demonstrate their sustainability objectives, position and performance, resulting into long-term value creation. Overall, higher ESG disclosures and transparency standards will help attract more capital and investment. The BRSR shall apply to the top 1000 listed entities (by market capitalization). In order to give time to companies to adapt to the new requirements, the reporting of BRSR shall be voluntary for FY 2021-22 and mandatory from FY 2022-23. However, companies are encouraged to be early adopters of the BRSR, thus being at the forefront of sustainability reporting. SEBI was one of the early adopters of sustainability reporting for listed entities amongst its global peers. The filing of the BRR containing ESG (Environment, Social and Governance) disclosures was first introduced for listed entities in 2012.

Since then, several developments have taken place. With adopting the Paris Agreement on Climate Change and UN Sustainable Development Goals, adapting to and mitigating climate change impact and transitioning to sustainable economies have emerged as major global issues. The COVID pandemic has also accelerated the relevance of ESG considerations to investors resulting in increased awareness of investors and a shift towards sustainable investing. The same is reflected in the spurt in new launches of ESG-themed mutual funds and the growth in assets of such schemes, including in India. As ESG investing becomes mainstream, disclosure requirements need to keep pace with this change and the BRSR is a significant step towards this direction. The new reporting system intends to establish a bridge between a company's financial status and its Environmental, Social, and Governance (ESG) performance. This would make it easier for regulators, investors, and other key stakeholders to get a realistic picture of the company's overall stability and growth (earlier based on financial disclosures alone). Even a retail investor will be able to ascertain if the company's future growth is based on sustainable products or services with long-term demand and little governmental or societal pressures if such disclosures are made. For example, investors would see an automobile industry company with a significant market share relying on present technology but instead of investing in new technologies as a long-term investment risk. In the last decade, India has been seeing a steady development in corporate disclosures, with these disclosures being made available to shareholders and other stakeholders. These efforts have encouraged firms to be accountable to stakeholders rather than shareholders while aligning with worldwide trends that encourage businesses to be environmentally and socially responsible. The notion of corporate accountability to all stakeholders underpins the responsible business philosophy. In India, business responsibility began in 2009 with the announcement of voluntary corporate governance principles, followed by a notification requiring the filing a Business Responsibility Report (BRR) for the top 100 firms by market capitalization. This resulted in qualitative reporting requirements for firms' social, environmental, and economic responsibilities, followed by quantitative disclosure rules focused on substance. This was originally enshrined in the National Voluntary Guidelines on Business's Social, Environmental, and Economic Responsibilities (NVGs), published in 2011 and eventually included in the Companies Act, 2013. The move from BRR to Business Responsibility and Sustainability Report (BRSR) will impart maturity to the disclosure standards, which will also align with worldwide expectations.

4. LITERATURE REVIEW

Though there is no significant amount of literature available on business sustainability reporting area, the following significant studies are reviewed for the present study:

Laskar & Maji (2016) documented that the Global Reporting Initiatives framework needs to be revised to publish any business concern's sustainability report. Laskar & Maji (2017), Laskar et al., (2017), Laskar (2018) and Hongming et al. (2020)reported that corporate disclosure performance has a positive impact on firm performance in Japan, South Korea and the Indian context.

However, Ezhilarasi & Kabra (2015) observed that only some selected companies have started disclosing environmental reporting realizing the importance of social aspects. Ganapathy & Kabra (2017) further advocated that corporate governance positively influences the environmental disclosure of corporate organizations in India. Later on, Ezhilarasi (2019) noted a positive association between the corporate governance index and the environmental disclosure of 130 polluting companies in India. Kumar & Prakash (2017) developed a sustainable development model for the banking industry that identifies useful idiots for addressing the issue of sustainable development financing in Indian scenarios. Kumar and Prakash (2019) investigated the sustainability reporting in the Indian banking sector during fiscal years 2015-16 and 2016-17 and discovered that banks in India are slower to adopt sustainability reporting practices and that environmental consideration indicators are largely ignored by most Indian banks. The study also revealed a significant difference in the disclosure of environmental and internal socio-environmental indicators between Indian public and private sector banks.However, recently Wahyuningtyas (2022) noted the insignificant relationship between sustainable reporting and financial performance in the Indonesian context.

5. THE UN SUSTAINABLE DEVELOPMENT GOALS (SDGS) AND REPORTING

Sustainable Development Goals (SDGs) were adopted by the United Nations (UN) in 2015 as a call for action by all the 192 member states in a global collaboration for harmony and wealth of the people and environment in a long-term perspective. It has set 17 sustainable goals for 2030, covering all issues relating to poverty, the environment, society, culture, human rights, and economic growth. It intends to think creatively on today's sustainability challenges, create the right alliances, and take the appropriate measures. Most nations have made monitoring frameworks and guidelines to meet these objectives of sustainability and the companies mention the same in their annual corporate report.

It is the accountability of the corporations to respect and safeguard the human rights of vulnerable communities and displaced people/ people who migrated to different regions across the globe. The Indian subcontinent and Sub-Saharan Africa had little progress compared with the rest of the world in these goals. Consequently, comprehensive sustainability goals became vital to bring prosperity to everyone. The five Ps of SDGs are People, Planet, Prosperity, Peace, and Partnership.

India became a member of UN sustainable development goals in September 2015. India ranking of Sustainable Development Goals (SDG) 2020 is 117 out of 193 nations on the SDG index and achieved a 61.92 out of 100. However, the ongoing flagship policies and programmes of the Government of India, such as Swachh Bharat Mission (SBM), BetiBachaoBetiPadhao (BBBP), Pradhan MantriAwasYojana (PMAY), Pradhan Mantri Jan-DhanYojana (PMJDY), DeenDayalUpadhyay Gram JyotiYojana (DDUGJY) and Pradhan MantriUjjwalaYojana (PMUY) have substantially contributed to India's progress in this regard.

Therefore, the growing trend of sustainability reporting has resulted in the standardization of frameworks into a globally accepted framework such as GRI. The BRSR incorporates several Key Performance Indicators (KPIs) of the international frameworks in an attempt to bring it on par with global ESG reporting trends and embraces ESG concepts in its disclosure formats. The KPIs mentioned in the report can be divided into three pillars, i.e. Environment, Social and Governance.

6. THE BRSR FRAMEWORK

The BRSR framework uses a two-format approach:

i. Comprehensive BRSR, and

ii. BRSR Lite.

The first format, namely Comprehensive BRSR, has been developed for the top 1000 companies listed in India and may be extended to several unlisted companies that meet specified thresholds of turnover and/or paid-up capital.

The second format, namely BRSR Lite, has been developed for unlisted companies unfamiliar with the preparation of sustainability reporting. The BRSR Lite format will encourage more companies to begin sustainability reporting as it is easier for all companies to adopt this format. The adoption of BRSR Lite would be voluntary for such companies. This format will encourage more companies to begin sustainability reporting as it is easier for all companies to adopt this format. The adoption of BRSR Lite would be voluntary for such companies. The underlying principle behind this thinking is that the implementation of reporting requirements would be done in phase manner, so that smaller companies would get the time to adapt and learn from the larger ones.

Business Responsibility and Sustainability Reporting (BRSR) scoring mechanism comprising total 300 scores (225 Section A, B, C- Essential Indicators Score and 75 Leadership Indicators Score). This approach consists of 3 sections and 9 principles:

Section A: General disclosures

The section contains details of the listed entity; products andservices; operations; employees; holding, subsidiary and associate companies (including joint ventures); CSR; transparency and disclosure compliances.

Section B: Management and process disclosures

It contains questions related to policy and management processes, governance, leadership and oversight.

Section C: Principle-wise performance disclosures

Companies are required to report upon KPIs in alignment with the nine principles of the NGRBC highlighted in Figure 1.

Principle-wise performance are classified into two categories such as,

a) Essential indicators (mandatory): KPIs include data on training programs conducted, environmental data on energy, emissions, water and waste, the social impact generated by the company, etc.

b) Leadership indicators (voluntary): Companies are expected to comply with these indicators for better accountability and responsible purpose. Some of the KPIs include data on life cycle assessments (LCAs), details on conflict management policy, additional data on biodiversity, the breakup of energy consumption, Scope 3 emissions and supply chain disclosures.

Principle 1: Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent and accountable.

Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe.

Principle 3: Businesses should respect and promote the well-being of all employees, including those in their value chains.

Principle 4: Businesses should respect the interests of and be responsive to all its stakeholders.

Principle 5: Businesses should respect and promote human rights.

Principle 6: Businesses should respect and make efforts to protect and restore the environment.

Principle 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

*Principle 8: B*usinesses should promote inclusive growth and equitable development.

Principle 9: Businesses should engage with and provide value to their consumers in a responsible manner.

7. SALIENT FEATURES OF BRSR REPORTING

NGRBC suggests two versions for BRSR reporting – "Comprehensive" and "Lite". The 'Comprehensive Version' of reporting is for listed organizations, and the 'Lite Version' is for unlisted companies. For now, SEBI has mandated that India's top 1000 listed companies (by market capital) submit the comprehensive version of BRSR for FY 2022-23.

A unique advantage of following BRSR requirements is that it adopts the United Nations Sustainable Development Goals (UN-SDGs) and is benchmarked with other global ESG reporting frameworks like Global Reporting Initiative (GRI), Task Force on Climate-Related Financial Disclosures (TCFD), etc. Reporting under BRSR guidelines comprises of three sections –

Section 1: General Disclosures focuses on the basic set of information at the company level.

Section 2: Management and Process Disclosures focuses on policy and governance level questions. Both these sections are mandatory to be reported.

Section 3: Principle-wise Disclosures comprises nine principles, each focused on a specialized area. Disclosures in section 3 have two categories – Essential Indicators and Leadership Indicators. The essential indicators are mandatory, while the leadership indicators are voluntary.

Method of reporting under BRSR,

compared to its predecessor BRR, is considerably heavy on data requirements. It comprises more than 120 reported data points across three sections and nine principles.

Gathering the raw data (thousands of data points!) across the Finance, HR, CSR, Supply-chain and Operations teams (and various systems such as ERP, CRM, HRMS etc.), collating and indexing it, processing it and then structuring it across these nine principles is an extensive exercise, and requires specialized focus and alignment.

8. BRSR SCORING METHODOLOGY

ICAI intends that companies should accelerate in making a positive impact in society. Companies should report and disclose non-financial information as well. Corporate houses will be able to assess their sustainability maturity level and it will benefit them in enhancing their scores.

An advanced solution which each company complying with BRSR can use to individually assesses its situation bymeans of various sustainability reporting maturity level.

Level 1, Level 2, Level 3 and Level 4 of Sustainability Maturity of corporate have been defined based on the total range of scores obtained by a corporate in a financial year as per the BRSR scoring mechanism.Leadership Indicators have been given prominence by allocating a score of 75 for encouraging

Figure 1

Levels Stage	Level 1 Formative Stage	Level 2 Emerging Stage	Level 3 Established Stage	Level 4 Leading by Example
BRSR Score (% of Grand Total Score)	**Up to 25%**	**>25% and up to 50%**	**> 50% and up to 75%**	**> 75%**
	Organizations are in the early stages of reporting and are assessing the need for BRSR.Create standard operating procedures for data gathering and disclosure.	Organizations understand the value of BRSR and respond by putting in place appropriate reporting procedures.The policies governing such reporting have yet to be finalized. The organization is working to establish internal controls, data collection, and disclosures.	Organizations have established formal functions/ policies/ systems for BRSR. Involved in compliance functions with a focus on improving quality.	Organizations desire to be much more than compliant; they would like to be market leaders.Strategically differentiating through raising disclosures in relation to the use of innovative approaches and procedures.

Source: ICAI Releases Sustainability Reporting Maturity Model Version 1.0

Figure 2

Environment	Social	Governance
• Energy and GHG/scope emissions • Solid waste management • Water consumption and withdrawal • 3R practices • Ari pollutant emission • Waste management policy • Sustainable sourcing • Extended producer responsibility (EPR) • Life cycle assessments (LCAs)	• Employee well-being • Health and safety of workers Trainings • Human rights • Social impact assessment • Occupational health • Gender equality representation of women at the top levels • CSR activities and details of beneficiaries	• Anti-corruption and anti-bribery policies • Conflict management process • Retention policies • Remuneration policies • Stakeholder engagement

Source: Business Responsibility and Sustainability Report prepared by PWC companies to target achievement of the same.

It is a self-assessment tool supporting corporate in sustainability reporting and its formats are generic i.e., they are applicable to all business sectors. However, some clauses may not be applicable to some businesses. Therefore, in case of non-applicability of disclosure requirements to a particular company, the total score obtained in BRSR scoring should be slashed accordingly. The grand total score should be calculated only considering the applicable clauses to an individual corporate. Companies can self-evaluate their current level of maturity on the Sustainability Reporting Maturity Model and identify areas where more attention is required. This will help them develop a road map for upgrading themselves to a higher level of maturity. Through this model, rating agencies and assurance providers could compare the sustainable nature of the Indian companies with other international companies, being an innovative concept in the sustainability ecosystem.

6. CONCLUSION

Sustainability reporting provides an overview of a company's economic, environmental, and social implications from its day-to-day business operations and activities. Sustainability reporting has entered the mainstream of business because stakeholders want corporations to account for their social and environmental impacts. It ensures that organizations think about their impacts on sustainability concerns and allows them to be transparent about their problems and challenges. In recent years, sustainability reporting has emerged as a critical component of Integrated Reporting, which integrates financial and non-financial metrics. Given the present COVID-19 pandemic situation, the need for sustainability reporting has reawakened stakeholders' interest. This increased awareness among stakeholders worldwide necessitates businesses to report actions, consequences, and outcomes of their activities, particularly the detrimental effect of their operations.

Furthermore, governmental regulation on ESG concerns has been strengthened to protect citizens' and the environment's rights. As ESG investing becomes more popular, disclosure requirements must evolve and the BRSR represents a significant step in that regard. The BRSR is an endeavour to provide investors with standardized disclosures on ESG factors.

The change is expected to increase transparency and allow market players to identify and evaluate sustainability-related challenges and vulnerabilities. Under BRSR, listed firms must provide a summary of their material ESG risks and opportunities, their approach to mitigating or adapting to the risks and the financial implications of the same. The BRSR's primary goal is to provide all stakeholders with yet another destination for non-financial disclosure. BRSR will be needed not just of larger corporations but also of smaller unlisted companies, who will be obliged to make such disclosure.

Furthermore, the BRSR disclosure will be used by numerous credit rating agencies, banks, and financial institutions for data analytics and to determine the company's reliability. The government will use this information for procurement purposes, and enterprises that demonstrate good business practices will be preferred. For corporate sustainability reporting, businesses around the world use a variety of international and local frameworks. Based on the National Guidelines for Responsible Business Conduct (NGRBCs) framework, the MCA established a committee on business responsibility reporting in November 2018 to finalize business responsibility reporting formats for listed and unlisted firms.

In August 2020, the Committee considered several aspects and issues that may improve the quality and usefulness of disclosures, and recommended BRSR as an update to the existing BRR, based on the NGRBC, to incorporate current global practices in non-financial sustainability reporting. Furthermore, the ICAI's Sustainability Reporting Standards Board (SRSB) is working hard to raise awareness and put in place measures to improve responsible corporate conduct. In this connection, the SRSB is publishing its

"Background Material on Business Responsibility and Sustainability Reporting (BRSR)" to deliver necessary guidance and in-depth knowledge of this field for all members and other stakeholders. The philosophy of responsible business is built on the premise of a company being accountable to all its stakeholders in light of global trends that increasingly compel corporations to be environmentally and socially responsible. In light of ever-increasing global challenges such as climate change, environmental risks, rising inequality, and so on, business leaders have been compelled, and it has also proven to be in their best interests, to reimagine the role of businesses in society, rather than viewing them solely as economic units for generating wealth. A company's performance should be judged not only on its financial results, but also on how well it meets its environmental, social, and governance goals. ■

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