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From Qualitative to Quantitative Approach: Shift from CSR to ESG Reporting

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ABSTRACT

The landscape for doing business has changed drastically. The new parameter to judge the criteria of corporate functioning is sustainability. Though CSR has established itself as a sustainability tool (enabling companies to make a social or environmental impact thus benefitting communities) it has however not been able to keep pace with the sustainability parameters. An important reason has been that CSR initiatives undertaken could not be quantified. CSR acted as a method to create a corporate image that the corporation is doing meaningful work for society. However, over the years, investors and also consumers have become more aware of the importance of sustainable investing as well as buying. Investors are preferring to invest in companies that can with factual data prove their contributions to society and their impact on the environment. This has compelled the corporations to take resort to more quantified methods which has ultimately led them to shift from CSR to ESG reporting. ESG stands for Economic, Social and Governance ESG is a set of standards for a company's behaviour used by socially conscious investors to screen potential investments. It can be understood as a framework that enables stakeholders to analyse how an organization manages risks and opportunities related to environmental, social and governance criteria. ESG practises have resulted in better operational performances of the company. In spite of the benefits, there have been instances wherein ESG reporting has been used by companies to give misleading information about their product being environmentally sound. Such practices cause harm to consumers while misleading investors as to the impact of the company's operations on society and the environment. ESG is the future of Corporate Reporting. It is required that the ESG governance standards must be improvised(which are at present complex and subjective. Attempts must also be made to frame universal ESG reporting guidelines.

Keywords: *ESG, ESG Vs CSR, Advent of ESG Disclosures: India, Introduction of the BRSR framework, The shift: From CSR to ESR.*

I. INTRODUCTION

The acceptance of the concept of CSR made it impossible for businesses to simply perform business transactions of buying and selling without having regard for the society in which they

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exist. The concept obliged businesses to do business responsibly. This responsibility cast upon the businesses has been from social, economic as well as environmental perspectives. CSR widened the scope of functions of any business, for it was not just restricted to earning profit and appeasing the owners of the businesses, but also to protecting and uplifting the society in which it exists and protecting and preserving the environment in which it deals. Soon compliance with CSR objectives became the criteria to judge the performance of the company. Growing awareness among the consumers made it imperative for companies not to give an impression that they are only concerned with earning profits but they are equally conscious of their responsibilities towards their surroundings. The idea behind the concept of CSR was to establish corporations as responsible corporate citizens. The idea of CSR was taken seriously by businesses and we see that over the past year, companies have done substantial work under the concept of CSRCSR has been an effective tool to provide solutions to managers by which they could outweigh the negative externalities. Though the concept of CSR intends to bring overall growth and long-term sustainability to the company, it has however not been able to give the desired results. A major reason behind the inability of corporations to derive the best has been the fact that CSR is more of a philanthropic concept. This made the CSR initiatives not taken seriously or with due respect by the top management. Another important reason has been the fact that the effect of CSR on a company's profit can never be measured.

The landscape for doing business has changed (and continues to change) drastically. Corporations reaching more and more people it has become necessary to upgrade the existing laws and provide a stringent mechanism of rules and regulations to make the corporations accountable and to provide protection to the investors. The new parameter to judge the criteria of corporate functioning is sustainability.[2] Though CSR has established itself as a sustainability tool (enabling companies to make a social or environmental impact thus benefitting communities) it has however not been able to keep pace with the sustainability parameters. in the wake of an increase in corporate actions, both national and international, the Governments have come down heavily on corporates to adhere to certain set standards that ensure profitability as well as sustainability. The governments also are under pressure to meet the sustainable standards set by the UN in its Sustainable Development Goals. This has led to the emergence of ESG (Economic, Social and Governance). ESG denote the standards through which a socially conscious investor judges the behaviour of a company. It is a framework that enables investors to analyse the manner in which an organization handles potential risks relating to the

[2] UN World Commission on Environment and Development as 'meeting the needs of present generations without compromising the ability of future generations to meet their own needs'

environment and avails opportunities pertaining to other social matters.

II. WHAT IS CSR?

CSR is the mechanism whereby companies take responsibility for the impacts of their decisions on society. CSR initiatives include companies setting their ethical, social and economic standards of practice by contributing to the well-being of society at large. It denotes a company's framework of sustainability plans and responsible cultural influence.

CSR is qualitative and largely driven by considerations and commitments internal to a company. CSR reflects the self-regulation exercised by the company itself through setting internal controls and checks and an ethical code of conduct. CSR commitments serve as benchmarks for mitigating social or environmental harm. CSR initiatives of any company touch on four main themes: environment protection, ethical conduct, philanthropic activities (donating to charitable and non-profits) and economic activities. Though CSR initiatives are mooted to benefit the overall performance of the corporation, there is no linear line to relate the profitability of a business with CSR activities done by the company. CSR has remained a voluntary good work supposed to be done by any company. This often led the companies to take the CSR initiative lightly, and CSR activities often got ignored by the top management. Also being qualitative in nature there is no way to analyse how well a company otherwise good in CSR activities, has performed in terms of profitability. As investors are becoming more and more aware of the importance of investing in stable companies, the need for a quantified approach to judging the stability and sustainability of a company is felt. CSR framework promised the stakeholders that the efforts undertaken under CSR initiatives shall cast a positive impact upon society, the absence of any measurable statistics to ascertain the exact impact cast by the initiatives makes CSR more like a cover to establish a good image of the corporation in the market.

Of late responsible investment and sustainable finance have become the new trend in the investment sector. Responsible Investment herein means that the investors are deliberately investing in such firms who use the money not just to earn profits but also to uplift the interest of the various stakeholders as well the society at large and whose contributions so made can also be measured. This has led to the emergence of the concept of ESG.

(A) ESG:

ESG stands for Economic, Social Governance. It is the new set of standards through which a company proposes to cast a positive impact on society while at the same earning profits that is remaining sustainable and stable. Sustainability gives our future the fighting chance it deserves. Sustainability is the new talk of the town. Corporations too are under pressure to set such standards for achieving their goal which is sustainable in all aspects (environment, social, stakeholders etc). The only way to guarantee a controlled evolution with a positive outcome is to make it sustainable. Keeping this in mind the world is now shifting to ESG from CSR to analyse the company's profitability and its impact on society. ESG owes its genies to the concept of CSR, without CSR there would be no ESG however both are not interchangeable.

The essence of CSR was preventive and corrective measures while ESG is the indicator of actual value generated by adopting sustainable and long-term measures. CSR while expressing the desire for a business model that is inclusive of social and environmental necessities, ESG is the monetized version as activities can be quantified to a great extent. The difference between the two concepts can be understood in this example:

A company may set aside certain money from its profits to provide food for the poor kinds. This activity shall be a CSR initiative undertaken by such a company which shall also benefit society. However, there is no way to ascertain the actual positive impact that such activities shall have on society if the company continues to undertake such activities in the near future also. Take another example, a car manufacturing company manufactures its cars with a recent technology that reduced carbon emissions. There is certainly a positive impact on society as well this impact can also be measured. The above example falls under the CSR initiatives of a company the other example falls under ESG compliance by a company.

The growth of ESG is rooted in CSR, ESG providing a recognized route for businesses to be more socially accountable. Though ESG is a step ahead of CSR, it can however not be used interchangeably as both differ from each other in certain terms:[3]

POINT OF DIFFERENCE	**CSR**	**ESG**
Investor and Consumers	CSR activities are designed to improve the company's image, by motivating employees to perform well and showing investors how conscious of their duties towards society.	ESG reporting targets meeting the requirements of investors and other stakeholders.
Legal Compliances Vs	CSR activities concern the	ESG reporting focuses on the

[3] What is the difference between CSR and ESG? <available at https://www.knowesg.com/featured-article/what-is-the-difference-between-csr-and-esg> (last accessed on 01/07.2023)

Corporate Practice	legal as well as ethical implications of the actions of the company. It showcases the manner in which a company deals with its employees and customers.	impact of a company's action on climate, income inequalities etc. and what procedures it follows to reduce them
Mandatory Compliance Vs Voluntary Choice	CSR is voluntary, a matter of choice.	ESG reporting is not a choice but a mandatory obligation.
Measurable Vs Goal Oriented	CSR initiatives are not measurable though they are goal oriented.	ESG reporting includes disclosure requirements, standards for questionnaires and rating proforma, that help in assessing how well the company is compliant with ESG reporting.
Material Risk Vs Value Showcase	CSR initiatives focus on the values of the company. The initiatives showcase the general willingness of the company to do good for the society	ESG focuses on material risks like environmental risks, financial and other social risks. ESG reporting can be quantified and the exact work done can be analysed.

(B) ESG Vs CSR:

Under the ESG principle, it is assessed as to how companies deal with issues like carbon emissions, usage of natural resources, dealing of diversity among employees, companies' stance on corruption etc. Both CSR and ESG have commonalities (both enabling the company to discharge its duties towards society and other stakeholders) as well as distinctions. The aim of CSR activities is to create awareness and highlight the goals of a company, while ESG provides data that can be measured, is objective and can be relied on by the public as well as investors to analyse strategies of the corporation. However, ESG is a progression from CSR.

III. ESG REGULATIONS AND POLICY

The world in consensus has pledges to undertake whatever measures practical to tackle climate change and mitigate its impact while also ensuring employment, food and security of the masses. Of all the problems confronted by the world today, addressing climate change is the most crucial and important one. The frequent occurrences of natural calamities like floods, droughts, hurricanes, and rising temperatures have made it evident that the problem needs to be resolved at the earliest. It is also evident that if measures are not taken today then in the coming times global community may upon capital as well as jobs.

India is a member of CoP26 and is obliged to achieve zero emissions by 2070. India in the past few years has made an aggressive move towards decarbonisation. The Indian regulators have mandated companies to adopt such methods of doing business which are sustainable and merely assist in earning profits. The adoption of sustainability and Environment, Social and Governance(ESG) is an indicator of the serious efforts undertaken by India in this regard. ESG disclosures are relevant for all the stakeholders: (Avinash Das, 2023)

From Investors perspective: a business which is not run on sustainable principles shall perish in the long run for its practices may become redundant consequently affecting the demand for its products. Investors shall abstain from investing in such businesses which become a cause for losing ground in the market. ESG disclosures are consequential for investors for:

- Ascertaining climate-related considerations in asset valuation and finance allocation processes
- Determining the impact of the company's business on society and the environment
- Assessing the impact of climate change on the financial stability of the company.

From the point of view of Business: ESG disclosures enable companies to identify potential risks and take necessary action within time. Based on the reporting and the self-assessment done by the company, it can analyse its future aspects.

A company not conscious may stand the risk of losing profit-making capacity, but also market reputation. ESG disclosures help companies to identify opportunities for innovation which may then yield high results in the future. Disclosures made under ESG reporting assist the stakeholders in assessing the true value of the company and how it intends to do business. The Companies Act, 2013, emphasises the stakeholder model of doing business and has it mandatory for companies to adopt a wider perspective and take into account the interest of all stakeholders (employees, government, customers etc.) Take for example Section 166(2) of the Companies

Act. The section states that directors must act in good faith while promoting the objects of a company. He must work for the benefit of all shareholders, consumers, sellers, the environment etc.

Consumers – ESG disclosures enable consumers to choose wisely. The ESG reporting enables them to identify which company is not just earning profits and growing but is also conducting business in a responsible manner. A company is proper ESG disclosures shall be able to attract more customers.

There is no doubt that ESG reporting is beneficial for all stakeholders. It is required that a proper and formal framework for making ESG disclosures should be framed. This shall ensure uniformity throughout regions and companies.

IV. Advent of ESG disclosures: India

The ESG disclosures for the first time have been provided in the new Companies Act of 2013. Through Section 134(m) it is mandated to companies include a report by their Board of Directors on the conservation of energy, along with the annual financial statement. Similar obligations have been imposed upon directors to provide information as to measures undertaken by the company to conserve energy. SEBI has directed companies to disclose information as to opportunities present for a company, potential risks and threats perceived by the company in their annual reports.[4] Further to enhance the confidence of the investors in 2017 SEBI issued a circular titled Disclosure Requirements for Issuance and Listing of Green Debt Securities whereby it introduced a framework for the issue of green debt securities in India. This circular supplements the SEBI (Issue and Listing of Debt Securities) Regulation, 2008 and provides a list of disclosures that must be made by an issuer when making an offer, of a project financed by green debt. With a view to enabling the integration of ESG risk management into Financial Institutions' business strategy, SEBI came up with National Voluntary Guidelines for Responsible Financing. These guidelines guide the Financial Institutions as to the strategies by which they could integrate ESG reporting into their business. For instance, Financial Institutions must integrate analysis of environmental, social and governance factors in their investment, lending and risk-management processes across business lines to minimize adverse impacts on their own operations and on society.

[4] Regulation 34(3) of the SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 ("LODR Regulations").

V. BRSR: THE NEW FRAMEWORK

SEBI [5] in May 2021 introduced a new framework, the BRSR, replacing the earlier existing Business Responsibility Report ("BRR"). BRSR is in consonance with the nine principles of the National Guidelines for Responsible Business Conduct ("NGBRC"). Through the new framework, the top 1,000 listed companies have been mandated to disclose annual information relating to ESG from the financial year 2022-23. The evolution of the BRSR framework can be tracked below: [6]

YEAR	EVENT
2009	Ministry of Corporate Affairs introduced the National Voluntary Guidelines
2012	BRR filing is mandated for the Top 100 listed companies.
2014	CSR came into force
2015	BRR is made applicable to the top 500 listed companies by market capitalisation.
2017	companies advised by SEBI to switch to IR on a voluntary basis.
2019	MCA released the NGBRC. BRR extended to the top 1000 listed companies by market capitalisation.
2021	BRSR introduced.

BRSR includes the following aspects also,[7]

- In addition to providing a comprehensive framework for disclosures, it also emphasises the implementation of the NGRBC principles. This helps in dealing with ESG reporting concerns and enhances ESG compliance by Indian Companies.
- Mandates disclosure of policies and mechanisms through which the company proposes

[5] amended Regulation 34(2)(f) of the LODR Regulations
[6] Avinash Das,Arjun Goswami and Anmol Jain, "An Introduction of ESG Disclosures in Indian Regulatory Space – Part 1 <available at https://www.businesstoday.in/technology/news/story/an-introduction-of-esg-disclosures-in-indian-regulatory-space-part-1-371707-2023-02-28> (last accessed on 02/07/2023)
[7] ibid

to remain ESG compliant. BRSR focuses on quantifiable methods to ensure comparison across companies.

- Focuses on making disclosures pertaining to climate and social issues.
- Has classified disclosures into two heads: (a) essential(b) indicators of leadership. Former being mandatory.
- Allows interchange for such organisations that have been publishing sustainability reports under other internationally recognized frameworks.

Introduction of BRSR framework SEBI has been able to join the group of companies that have released their comprehensive reporting regimes. BRSR reporting is in compliance with the UN Sustainable Goals and is also benchmarked with ESG frameworks like Global Reporting Initiatives. The present framework is considered better than the earlier one as companies are mandated to report on the gender ratio among their employees. Companies will now have to conduct human rights reviews and environmental reporting.

Some examples of companies undertaking ESG reporting:[8]

Havell's India and Godrej Consumer Products: The company has discontinued the use of trace Kr-85 radioactive isotope from its CMI (ceramic metal halide) lighting range. None of its products now have radioactive components. the company has also undertaken two renewable energy initiatives -- biomass and solar lamps -- and four resource conservation initiatives across all its plants.

Godrej: has been able to increase its renewable energy portfolio to 30 per cent. It also has been able to reduce the emission of greenhouse gases to about 37 percent. It also reduced water consumption by 32 percent.

It further envisages making its packaging material 100 percent recyclable by 2025.

Asian Paints: came up with Project NEW (N- natural resource conservation, E- energy and emission reduction, W- waste reduction). The focus of this project shall focus on manufacturing activities which are environment friendly. This project aims at minimising the impact of operations on the surrounding environment thereby preserving biodiversity.

Maruti Suzuki: has into a partnership agreement with different states for the adoption of Industrial Training Institutes. It has set up the first Japan-India Institute of Manufacturing in

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[8] Ajit R Sanghvi, Top performing ESG companies in India & how are their stocks faring <available at https://economictimes.indiatimes.com/markets/stocks/news/top-performing-esg-companies-in-india-how-are-their-stocks-faring/articleshow/79935953.cms?from=mdr> (last accessed on 02/07/2023)

Gujrat.

VI. THE SHIFT: FROM CSR TO ESR

CSR while aimed to make businesses accountable, ESG provides quantifiable indicators to measure a company's sustainability as well as social impact. One reason for the shift from CSR to ESG is the stakeholder demand both consumers and investors who want the companies to do greater good. Another reason has been the disastrous effects of covid 19. Companies at this time were in dire need of funds and investors' insistence of quantifiable methods to ascertain company, good work compelled them to adopt ESG reporting. ESG practises have resulted in better operational performances of the company. As per The Oxford University Metastudy: From stockholder to stakeholder, ESG practices have led to better operational performance as well as better stock performance. It also lowered the cost of capital by 90 percent for the companies. A study conducted by RBI based on Morgan Stanley Capital International (MSCI's) ESG indices has found that the Indian Domestic Companies following the ESG framework have performed better than their global peers. Also, such companies have been found to have better stock prices. By adhering to ESG standards a company can boost employee productivity as well as enhance the reputation of the company.

(A) Challenges in ESG Reporting:

There have been instances wherein businesses have used ESG reporting to give misleading information about their product being environmentally sound. Such activities undertaken by companies lead to the problem of Greenwashing. Greenwashing is defined by SEBI as "making false, misleading, unsubstantiated or otherwise incomplete claims about the sustainability of the product, service or business operation." Companies making false claims and lack of proper regulation have made this a prominent issue. Taking note of the situation SEBI on February 2023 issued a circular laying down instructions for the companies not to use misleading labels or make untrue claims and directed them to make accurate claims about the environmental impact.[9] On February 6 SEBI issued another circular providing for the appointment of a third-party agency to review the project and to ensure that proceeds from green-labelled securities are used for intended purposes. Though the circulars are the right step in I right direction yet greenwashing as a practice continues among companies.

Further, BRSR, the new regulatory framework, lacks comprehensiveness. The disclosure requirements are also generic when compared to an international framework like that of the EU.

[9] Manik, " Incorporating Environment, Social and Governance Norms into Indian Corporations" <available at https://www.livelaw.in/> (last accessed on 02/07/2023)

Sector-specific approach while is the need of the hour, at present no such regulation exists nor the matter is talked about on any existing regulation. ESG also lacks governance standards. ESG reporting is as of now complex and subjective. The ESG standards vary across industries and regions and as such there is no universal benchmark for the same. There is also a need for qualified internal resources to look into the implementation of ESG standards.

VII. Conclusion

The sustainability movement has compelled corporations to give due importance to the social component as given to the environmental and governance components. Companies must modify their methods of measuring the results of CSR activities and adopt quantitative methods by which they could show on factual grounds how their CSR activities have impacted society. CSR and ESG are equally important elements of corporate sustainability. Both however have different approaches and tools for assessing corporate performance. It is required that companies must adopt both practices for long-term success. Investing in sustainable practices shall build their brand image and customer and investor confidence.

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