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Assessment of Governance Dimensions in Sustainability Reports with Special Reference to Power Sector Companies

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Abstract

The sustainability reporting regime has seen various developments over the past few years with matters like climate change, human rights, ethical governance and others gaining momentum. With the introduction of Business Responsibility and Sustainability Reporting, companies are now shedding light on their commitment towards sustainable operations. In this study, an attempt has been made to examine the governance indicators reported in the sustainability reports of power sector companies in India. Top 4 companies from the power sector based on market capitalization were selected for the analysis. The Sustainability Reporting Maturity Model, published by ICAI, serves as the benchmark for 5r-scoring these companies.

Keywords: Sustainability. Ethical governance. Power sector. Human rights.

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1 Introduction

The implementation of a robust Environmental, Social, and Governance (ESG) model is emerging as a central strategy for companies striving to minimize environmental impact and enhance productivity (Gupta & Mittal, 2022; Qu & Zhang, 2023). This comprehensive framework goes beyond superficial compliance with regulations, seeking to establish comprehensive approaches to corporate responsibility and sustainability (García-Sánchez et al., 2022).

Therefore, the evaluation of sustainability is perceived as a methodology that aims to gauge the effects of policies, starting from their planning phase, using dimensions and indicators to enhance their utility and effectiveness(Waas et al., 2014). Governance indicators serve as a means to assess sustainability across various dimensions that encompass all sectors of society, including government, businesses, organizations, and individuals (Wiek & Larson, 2012). Utilizing these indicators can facilitate the formulation of decisions that prioritize sustainability, targeting economic, social, and environmental development (Gupta & Mittal, 2020). Using governance indicators aids in establishing quantitative benchmarks for the 11th Sustainable Development

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Goal (SDG), enabling the comparison of progress toward its attainment over time (de Lima et al., 2020). Therefore, incorporating a sustainability assessment that incorporates governance indicators can enhance comprehension of the shared values among stakeholders. In the light of this statement, an attempt has been made in this paper to score the governance dimension of sustainability reports by using the SRMM scoring model.

2 Literature Review

2.1 ESG Reporting and Energy Sector

ESG (Environmental, Social, and Governance) reporting is gaining increasing attention from investors, communities, and regulators (Do & Herbohn, 2024). For energy companies, the evolving reports are bringing significant challenges and opportunities (Mgbame et al., 2020). The energy sector, heavily reliant on natural resources, often contributes to environmental degradation and pollution, leading to ecological and societal imbalances (Shittu et al., 2021). Investors and their capital providers are increasingly focused on ESG risk factors in today's market economy, as many find these factors helpful in understanding a company's long-term value creation strategy (Maiti, 2021). As a result, companies in the energy sector are facing significant challenges and opportunities in evolving their ESG reports.

The role ESG reports play must be acknowledged and maximized in the energy industry. However, the effectiveness of ESG implementation heavily relies on robust governance structures (Baran et al., 2022). These include corporate ethics, board diversity, executive compensation, and shareholder rights, among others (Beji et al., 2021; Do & Herbohn, 2024; Sarhan & Al-Najjar, 2023). These elements are integral to a company's sustainability strategy, influencing how governance objectives are set, pursued, and achieved. Therefore, it becomes crucial to comprehend how companies in the energy sector tackle ESG concerns and assess the present status of ESG reporting within these firms. This understanding can help in the development of strategies that not only mitigate environmental risks but also maintain a competitive advantage in the long run.

2.2 Framework for Sustainability Disclosure

In May 2021, the Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Reporting (BRSR) framework to establish a standardized and quantitative format for disclosing Environmental, Social, and Governance (ESG) responsibilities by companies. This initiative is specifically designed for the top 1000 listed companies by market capitalization, supplanting the earlier Business Responsibility Reporting (BRR) framework. The BRSR represents a significant improvement over its predecessor, addressing notable gaps, particularly the limited provision of qualitative information in the previous BRR.

In a parallel development, the Sustainability Reporting Standards Board of The Institute of Chartered Accountants of India has introduced the Sustainability Reporting Maturity Model (SRMM) based on the MCA Committee Report. The SRMM offers a comprehensive approach to assessing each corporation's compliance with BRSR norms. It presents a scoring model that allows for the analysis of BRSR reports, offering insights into the level of sustainability reporting achieved by companies. The scoring mechanism encompasses Business Responsibility and Sustainability Reports, with a maximum achievable total score of 300. However, given that the BRSR is a generic framework applicable across all sectors, certain parameters may not be pertinent to specific industries. In such instances, the total applicable score is adjusted accordingly.

3 Objectives of the Study

The objective of the study is as follows:

i To score the sustainability reports of leading energy sector companies with respect to the governance indicators reported by them.

ii To compare and rank the companies on the basis of disclosures made and scores achieved by them.

4 Methodology

In conducting a comprehensive analysis of the energy sector, the study has used methodology to select four prominent companies based on their market capitalization. This method ensured a balanced representation of both public and private sector entities. From the private sector, Adani Group (market capitalization: 2.19 lakh crores) and Tata Power (market capitalization: 1.26 lakh crores) were identified as key players. Similarly, representing the public sector, NTPC (National Thermal Power Corporation) (market capitalization: 3.21 lakh crores) and NHPC (National Hydroelectric Power Corporation) (market capitalization: 1.03 lakh crores) were included in the analysis.

The selection criteria prioritized market capitalization as a reliable indicator of company prominence within the energy industry. Furthermore, to maintain analytical consistency, it was ensured that all chosen companies reported both leadership and essential indicators. The market capitalization values were accurate as of February 7, 2024, providing a current snapshot of each company's market position.

The analysis focused on the Business Responsibility Sustainability Reports (BRSR) for the fiscal year 2022-23 for these selected companies. The Sustainability Reporting Maturity Model (SRMM) guidelines were employed to score and analyse the information related to governance indicators presented in these reports. The total scores obtained by each company were then converted into percentage scores by dividing the achieved score by the maximum possible score. This conversion allowed for a standardized comparison of sustainability performance. Principle-wise lists of governance indicators from the BRSR reports are presented in table 1 for a more detailed examination of the companies' sustainability practices.

As per the SRMM guidelines, the maximum possible score that a company in the energy sector can obtain for governance indicators is 98 (75 for essential indicators and 23 for leadership indicators). Although the total applicable score for essential governance indicators is 86 because 12 points related to "Percentage of products/services with information on environment/social matter, safe and responsible usage and recycling & safe disposal" are not applicable on power sector companies. Therefore, these indicators are not considered for analysis.

5 Analysis and Interpretation

The total scores obtained by the company on governance indicators reported by them in the BRSR reports as per SRMM Guidelines is represented in the table below.

Table 2 presents the Principle 1, 3, 4, 7 and 9 of governance aspect in the BRSR framework. In all the principles, the leading company is different for both leadership as well as essential indicators. It shows that all the companies are leading in one or the other principles. Tata Power is leading in reporting both essential as well leadership indicators of Principle 1, 4, 7 and 9. NTPC leads in case of Principle 1 leadership indicators, essential and leadership indicators of Principle 3, essential indicators of Principle 4, 7 and 9. NHPC leads only in leadership indicators of Principle 3 and 9. Adani Power has the least scoring in all indicators except essential indicator

Table 1. Governance Indicators in BRSR Report

Principle No.	Description of Principle & Relevant Indicators
Principle 1	Companies ought to operate with integrity, adhering to ethical standards and conducting their affairs in a transparent and accountable manner. & • Training and Awareness Programmes. • Fines/Penalty whether monetary or non-monetary. • Anti-corruption/bribery policy. • Conflict management process.
Principle 3	Business should respect the well-being of employees including those in the value chain. & • Provision of health, accident, maternity and paternity benefits for employees. • Equal Opportunity for all. • Policy for work-related hazards. • Complaints resolving process. • Transition assistance programmes.
Principle 4	Companies should acknowledge and respond to the interests of all their stakeholders. & • Key Stakeholder Group. • Stakeholder consultation. • Engagement with vulnerable and marginalised stakeholder group.
Principle 7	When businesses participate in shaping public and regulatory policy, they should engage in a responsible and transparent manner. & • Affiliation with trade and industry chambers. • Corrective action taken based on Adverse Judicial or regulatory orders. • Public policy positions advocated by company.
Principle 9	Companies should interact with their consumers responsibly and deliver value in the process. & • Responding to and resolving consumer complaints and feedback. • Product Recalls. • Framework for cyber security and data privacy. • Informing and educating consumers. • Consumer survey carried out. • Data breaches.

Source: Author's Compilation from BRSR Reporting Guidelines

Table 2. Principle Wise Score of Governance Indicator of Different Companies

Total Applicable	Adani Power	Tata Power	NTPC	NHPC	Highest
Principle 1	Essential	9 (47)	19 (100)	15 (79)	Tata
	Leadership	2 (40)	3 (60)	3 (60)	Tata + NTPC
Principle 3	Essential	32 (80)	28 (70)	36 (90)	NTPC
	Leadership	6 (67)	6 (67)	9 (100)	NTPC and NHPC
Principle 4	Essential	1 (20)	4 (80)	4 (80)	All except Adani
	Leadership	2 (40)	5 (100)	4 (80)	Tata
Principle 7	Essential	5 (100)	5 (100)	5 (100)	Equal for all
	Leadership	0 (0)	2 (100)	0 (0)	Tata
Principle 9	Essential	21 (84)	25 (100)	25 (100)	All except Adani
	Leadership	0 (0)	7 (100)	5 (72)	Tata and NHPC

*The value in the parenthesis represents the percentage score obtained by the company

of Principle 7 which is equal for all. Following are the reasons of scoring less marks in a particular principle described company wise:

i Tata Power

- Leadership indicator of Principle 1, the company has conducted Awareness Programmes only for 1 of the value chain partners. More marks could have been secured by covering more value chain partners.
- In Principle 3, no data is provided by the company on health and accidental insurance benefits extended to the workers, percentage of employees trained on health & safety and skill upgradation is less than 80%, less than 60% of the workers/employees having suffered work related injury were rehabilitated.

ii Adani Power

- In case of Principle 1, there was no reporting provided by the company on several essential indicators and leadership indicators.
- In Principle 3, the company does not extend accidental insurance benefits, maternity and paternity benefits to its workers, less than 60% of the workers/employees having suffered work related injury were rehabilitated. Further, there was no reporting provided by the company on some of the leadership indicators.
- In Principle 4, the company has reported only on 1 of the 3 essential indicators, and 2 out of 3 leadership indicators.
- In Principle 7, there is no Public Policy position advocated by the company.
- In Principle 9, several essential and all the leadership indicators are not reported by the company.

iii NTPC

- In Principle 1, the awareness programs conducted by the company covered less than 60% of the employees and only 1-2 value chain partners. Covering more employees and value chain partners would have fetched more marks.
- In Principle 3, less than 60% of the workers are trained on health and safety and skill upgradation.
- In principle 4, less than 80% of the stakeholders associated with the company belongs to vulnerable and marginalised groups.

- There is no public policy position advocated by the company.
- In Principle 9, the company has not reported on some leadership indicators.

iv NHPC

- In Principle 1, the company has not conducted any awareness programmes for the value chain partners associated with them.
- In Principle 3, less than 60% of the workers are trained on health and safety, performance and career development and skill upgradation, less than 60% of the workers/employees having suffered work related injury were rehabilitated.
- In principle 4, less than 80% of the stakeholders associated with the company belongs to vulnerable and marginalised groups.
- There is no public policy position advocated by the company.

It is thus clear that all the companies lag in reporting of some or the other indicators. The total scores obtained by the companies is presented in Table 3 below.

On the basis of above discussion, it is thus clear that all the companies lag in reporting of some or the other indicators. The total scores obtained by the companies is presented in table 3 below.

Table 3. Total Score on Governance Indicators

Companies	All Essential	All Leadership	Total	Rank (Essential)	Rank (Leader-ship)	Rank (Total)
Adani Power	68	10	78	3	3	3
Tata Power	81	23	104	2	1	2
NTPC	85	21	106	1	2	1
NHPC	85	21	106	1	2	1

The above analysis reveals that NTPC and NHPC are leading overall in the reporting of governance indicators followed by Tata Power. The two public sector companies also lead in the essential indicator category. Tata Power is leading in reporting of leadership indicators followed by NTPC and NHPC. Adani Power has least score in all the categories.

6 Conclusion

The BRSR mandate has prompted companies within the energy sector, encompassing both public and private entities, to provide detailed justifications for their actions. This transparency is critical in fostering accountability and trust among stakeholders. While companies have taken initial steps towards reporting on Environmental, Social, and Governance (ESG) indicators as outlined by the BRSR guidelines, achieving the pinnacle of sustainability reporting remains a substantial undertaking that requires continuous improvement and commitment.

Moving forward, companies must prioritize integrating sustainability practices into their core business strategies to effectively address evolving societal and environmental challenges. Enhanced disclosure and robust reporting mechanisms will be essential in demonstrating tangible progress towards sustainable development goals. Moreover, fostering collaboration and knowledge-sharing within the industry will accelerate the adoption of best practices and innovations, ultimately driving meaningful impact on a global scale. From the present analysis it can be concluded that:

i Companies have started reporting on BRSR parameters, but reporting of leadership indicators is still not fully adopted by companies.

ii NTPC is the leading company in case of reporting of essential indicators, while Tata Power leads in reporting leadership indicators.

iii While measuring the overall performance on governance indicators, NTPC and NHPC leads with equal points. SRMM is an effective tool for comparing the companies instantly on the basis of the scores obtained by them. Further, scoring helps in determining exactly where company is lagging behind in sustainability reporting.

7 Limitation and Future Scope

This study focuses on a select number of companies within the energy sector, analysing only the governance indicators from their BRSR reports for a single year. Future research could expand to other sectors or could also be done on all companies listed on a particular stock exchange. Longitudinal studies could be beneficial for tracking companies' progress in reporting various BRSR parameters over time. A comprehensive study can also be carried out covering the entire SRMM framework for all the three sections of BRSR. This could highlight areas needing more detailed reporting for thorough analysis.

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