CORPORATE SUSTAINABILITY SCORE: A SECTORAL AND TREND ANALYSIS OF BSE 100 COMPANIES

*Sougata Mondal, University of Calcutta, Mail: sougatamondal116@gmail.com

**Sanjib Mitra, Sarsuana College, University of Calcutta, Mail: smitra.com@gmail.com

Abstract

In this study an attempt has been made to identify the top corporate sectors in India with maximum companies performing substantial ESG activities and to analyse the ESG scores of the companies. Relevant charts have been prepared to analyse the ESG scores of the select BSE 100 companies for the period 2016-17 to 2020-21. The outcomes indicate that Banking, Automobile and Financial are the top three sectors where most of the companies perform adequate sustainable activities. Overall, the findings also suggest that Indian corporates have made satisfactory improvements in their governance activity score, but other two activities i.e. social and environmental are still needed to be improved.

Keywords: Corporate Sustainability, ESG Score, Indian Companies, BSE 100, Trend Analysis.

Introduction

Nowadays, businesses are increasingly concerned with sustainable practices, in addition to their goal of maximizing wealth. Corporate sustainability integrates environment, society, governance and economic issues to the decision-making process of business. Thus, negative impacts on the planet and society can be reduced. Presently, Environmental, Social, and Governance (ESG) disclosures by companies have become as an important part of corporate reportings. ESG reporting has become increasingly important worldwide. It has been found that mandatory ESG disclosure improve the availability and quality of ESG reporting of the firms, particularly when they have low ESG performance. (Krueger et al., 2021). Stakeholders demand this disclosure for more accountability and transparency from companies. In 2012, the Securities Exchange Board of India (SEBI) compelled the top one hundred listed Indian firms, based on their market capitalisation, to submit a Business Responsibility Report (BRR) as the first stage of disclosing their ESG practices. After that, in 2015, the number of companies was increased to five hundred. In 2021 the BRR was replaced by Business Responsibility and Sustainability Report (BRSR). It was needed to be filed by top thousand listed Indian companies as per their market capitalisation from F.Y. 2022-23 (SEBI, 2021).

Environmental aspect of ESG assesses and manages risks and opportunities relating to environment arising due to a business operation. Issues like GHG emission, climate change, pollution, resource depletion, loss of biodiversity are addressed here. It helps to minimize a business's negative impact on environment and protect environmental stewardship. ESG's social aspect addresses various issues including gender equality in senior management, employee safety, economic inequality, labour management, and businesses' broader societal responsibility. The social dimension is important for community development, employee satisfaction, and productivity at work. The governance dimension of ESG, however, embodies the principles and frameworks that brings transparency and moral conduct within a corporation or entity. It addresses factors like the board independence, collective bargaining, code of conduct for suppliers, ethics, anti-corruption, and data privacy. The pillars of ESG are usually recognized as distinct entities, but in reality, they are interconnected.

Literature Review

Demand for internationally accepted as well as high quality ESG disclosure standards is on the rise (Bhattacharya & Zaman, 2023). However, there are some conceptual and practical challenges in setting a universal set of ESG disclosure standards (Motwani & Gupta, 2023). Companies should establish a purpose-driven strategy and secure commitment from management and cross-functional teams while integrating ESG measures into reporting (Raghavan, 2022). In India, various companies follow the Global Reporting Initiatives guidelines to enhance their sustainability reporting practices (Godha & Jain, 2015). Dash and Mohanty (2023) found that the corporate reputation and sustainability initiatives partially act as a mediating factor in the relationship between CSR practices and competitive performance of India's top ESG performing companies. Shobhwani and Lodha (2023) noted a notable disparity in the ESG risk rankings across various sectors of NSE 100 firms. A weak association of the composite ESG score as well as separate environmental, social, and governance score with company's performance was found in this paper. A study by Adhikari and Ghosh (2022) compared the CRISIL's ESG scores of the cement, financial and metal sectors. There was a notable difference in the ESG ratings across the firms in the mentioned sectors, suggesting differences in their ESG initiatives.

The review of literatures shows that different areas of ESG have been explored. Different rating agencies provide ESG ratings in terms of key areas of corporate sustainability using sustainability disclosures of companies. Year wise analysis of these ratings is needed that may help stakeholders to identify which areas of sustainability should be improved. Again, there is a need to identify which sectors are the major participants in performing sustainable practices. That will encourage other sectors also to increase their impact towards sustainability. Present study focuses to meet these needs by analysing the less explored areas from Indian perspective.

Research Objectives

The study focuses on fulfilment of the following objectives:

a. To identify the top Indian sectors in respect of highest number of companies performing substantial ESG activities.

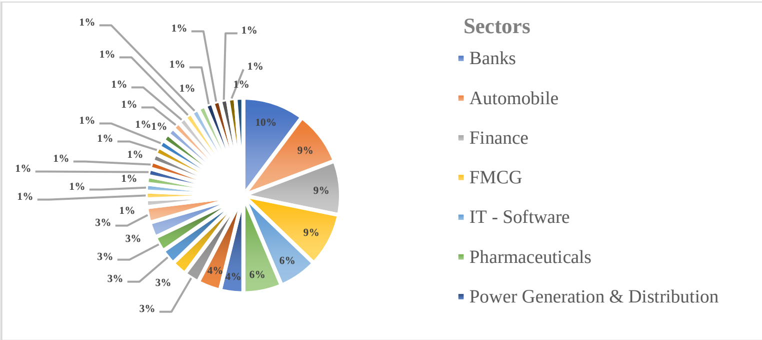
b. To compare year-wise improvement in the ESG scores of Indian companies.

Data and Methodology

The study covers BSE 100 companies listed on Bombay Stock Exchange (BSE) of India. The companies included in the index are suitable for research as they are corporate leaders and a gauge of India's economic progress. Period of study is restricted to five years from 2016-17 to 2020-21. At the end of this period, the world faced Covid-19 pandemic outbreak, that made corporates to focus more on sustainable activities apart from wealth maximisation motive. It makes the period more significant for this study. ESG scores have been used in this study as the corporate sustainability score. All the data relating to composite ESG score and individual scores of key ESG components are retrieved from Bloomberg database. These scores vary between 0 to 100. The scores increase due to improvement in the ESG activities. On the other hand, sector classification of the companies as per Capitaline database has been considered here. The final sample is reduced to seventy-eight companies due to missing ESG data for the period. Pie chart and Column chart have been used for analysing the data to meet the research objectives. Particularly, to meet the second objective three class intervals based on the scores have been prepared as: Score $< 50 \Longrightarrow$ 'Poor' score; $50 \leq$ Score$<70 \Longrightarrow$ 'Average' score and Score $\geq 70 \Longrightarrow$ 'Good' score.

Results and Discussion

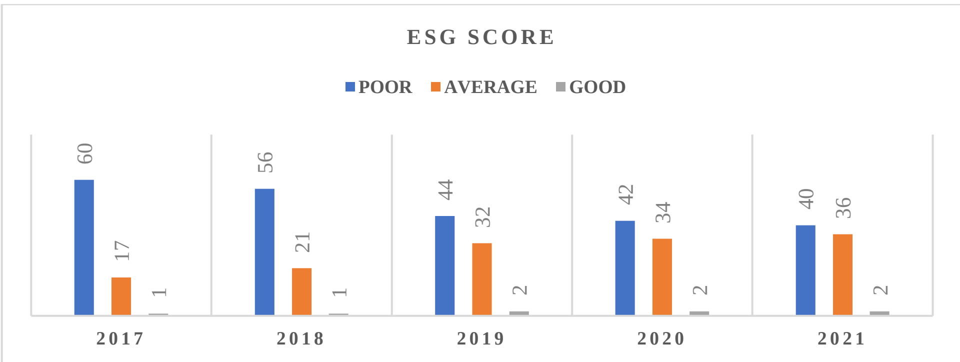
Figure 1



Authors' own calculation

Figure 1 reflects the sectoral analysis of the select BSE 100 companies, to identify which sectors perform adequate ESG activities. As can be observed, most companies are from the banking sector, followed by those in the automobile, finance, FMCG, IT software, pharmaceutical, and so on.

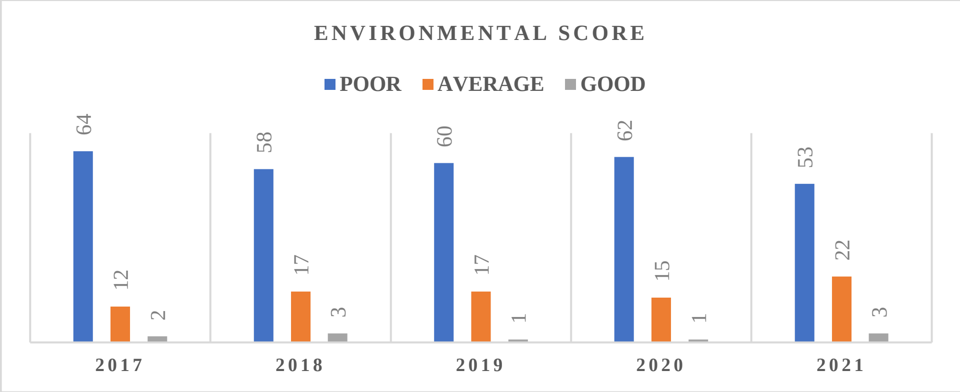
Figure 2



Authors' own calculation

Figure 2 shows the aggregate ESG score of BSE 100 companies have improved over the period of study. Although, majority of the firms have 'poor' ranking, it is evident that this percentage has steadily declined over the period. On the other hand, companies with 'average' score appear to have improved, even though the proportion of companies with 'good' score has not increased significantly.

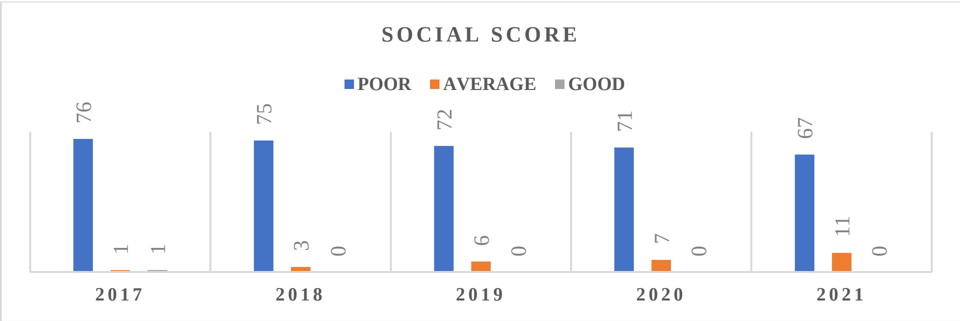
Figure 3



Authors' own calculation

Figure 3 reflects that the 'poor' environmental score of the select BSE 100 companies have not much declined during the time. As a result, the rise in the number of companies having 'average' and 'good' environmental score is insignificant.

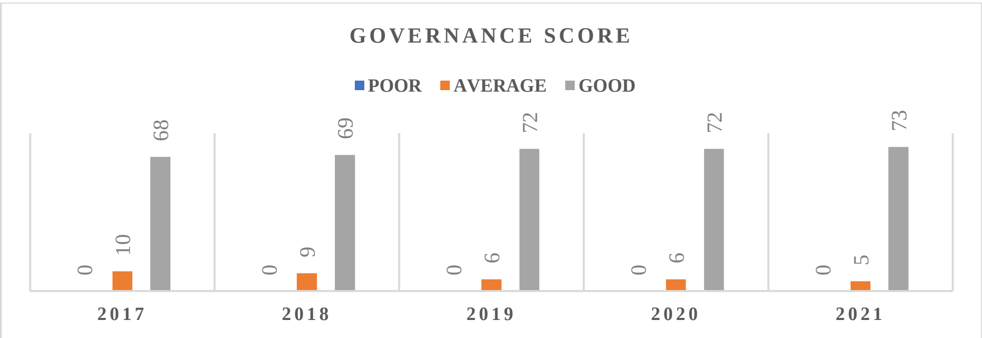
Figure 4



Authors' own calculation

Figure 4 illustrates that most of the sample companies have consistently faced 'poor' social score over time. Though, there has been an upward trend in the 'average' score, it is not satisfactory. Even in the last four years of the study, none of the companies have received a 'good' social score.

Figure 5



Authors' own calculation

Figure 5 demonstrates that throughout the study period, nearly all the select BSE 100 companies have maintained a 'good' governance score, with a growing trend. However, none of them have faced a 'poor' governance score over the whole period.

The analysis clearly demonstrates that for the BSE 100 companies, the governance pillar is the most dominant (IiAS, 2022; Maji & Lohia, 2022) out of the three major ESG pillars, while the environmental and social pillars are least strong.

Conclusion

ESG provisions have become more prevalent among Indian corporates due to several regulatory bounds over the past decade. The assessment of firms' performance based on the environment, society, and governance activities are still in its infancy (Adhikari & Ghosh, 2022). The present study analyses the companies included in the BSE 100 index, one of the most important indices in India, for five years. It reveals that Banking, Automobile and Finance are the top three sectors in respect of highest number of companies with composite and individual ESG scores for the period. Therefore, most of the companies from these sectors perform adequate sustainable activities. While analysing the year-wise change in the scores, it shows that the number of companies with 'average' scores have improved. It may be because of increasing concern among the corporates about ESG practices. Focusing on spending towards sustainable activities help corporates to enhance reputation, easy access to funds, reduce asymmetric information. The analysis also shows that, out of the three key ESG activities, Indian corporates have made substantial improvements in their governance activity score, but other two activities i.e. social and environmental are still needed to be improved. Hence, it is essential for the companies in India to allocate additional resources to these specific domains in order to blend their social and environmental objectives with their business goals through the preservation of the environment and ecosystem.

Limitations and Further Research

The study limits itself from different areas. Firstly, only seventy-eight companies are analysed with five years period of study. Further, both the sample size and period of study can be increased for robust results. Secondly, the study only relies on ESG data published by Bloomberg database. Other relevant databases may show different results.

References

Adhikari, K., & Ghosh, A. (2022). ESG Rating Of Indian Companies Of Select Sectors: A Comparative Study. *The Management Accountant Journal*, *57*(3), 71. https://doi.org/10.33516/maj.v57i3.71-74p

Bhattacharya, C., & Zaman, M. (2023). The What, Why and How of ESG Dashboards. *NIM Marketing Intelligence Review*, *15*(1), 32–39. https://doi.org/10.2478/nimmir-2023-0005

Dash, A., & Mohanty, S. K. (2023). The mediating effect of a firm's corporate reputation and sustainability practices in translating CSR into competitive performance in Indian ESG companies. *Society and Business Review*, *18*(4), 691– 709. https://doi.org/10.1108/sbr-02-2023-0045

Godha, A., & Jain, P. (2015). Sustainability Reporting Trend in Indian Companies as per GRI Framework: A Comparative Study. *South Asian Journal of Business and Management Cases*, *4*(1), 62–73. https://doi.org/10.1177/2277977915574040

IiAS. (2022, February). Corporate Governance Scores 2021: Immunity Through Strong Boards. Retrieved March 21, 2024, from https://www.iiasadvisory.com/institutional-eye/corporate-governance-scores-2021-immunity-through- strong-boards

Maji, S. G., & Lohia, P. (2022). Environmental, social and governance (ESG) performance and firm performance in India. *Society and Business Review*, *18*(1), 175–194. https://doi.org/10.1108/sbr-06-2022-0162

Motwani, A., & Gupta, R. (2023). ESG Reporting: Environmental Dimension Disclosures by Large Energy Sector Companies in India. *European Journal of Theoretical and Applied Sciences*, *1*(2), 108–118. https://doi.org/10.59324/ejtas.2023.1(2).11

NSE. (2020, October). Gaining exposure to large cap companies with superior ESG risk management. Retrieved March 20, 2024, from https://www.niftyindices.com/docs/default-source/indices/nifty100-esg-sector-leaders-index/whitepaper_nifty100_esg_sector_leadersc20df84c99bc6f449e1fff0400847f3c.pdf?sfvrsn=dab19734_4

Raghavan, K. (2022). ESG Reporting Impact on Accounting, Finance. *The Journal of Global Awareness*, *3*(1), 1–16. https://doi.org/10.24073/jga/3/01/09

SEBI (2021). Business Responsibility and Sustainability Reporting by listed entities (Circular No.SEBI/HO/CFD/CMD- 2/P/CIR/2021/562). Retrieved March 21, 2024 from https://www.sebi.gov.in/legal/circulars/may-2021/business- responsibility-and-sustainability-reporting-by-listed-entities_50096.html

Shobhwani, K., & Lodha, S. (2023). Impact of ESG Risk Scores on Firm Performance: An Empirical Analysis of NSE- 100 Companies. *Asia-Pacific Journal of Management Research and Innovation*, *19*(1), 7–18. https://doi.org/10.1177/2319510x23117091