IMPACT OF BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING ON FINANCIAL PERFORMANCE OF LARGE-SCALE COMPANIES THROUGH COMPARATIVE STUDY OF BRR AND BRSR.

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Abstract

The purpose of this article is to explore the disclosure of business responsibility and sustainable practices and to examine the association between sustainability performance and financial performance in companies of India.The present study is based on secondary data collected from annual reports and websites of listed companies in India. Content analysis (binary coding system) is employed to calculate the sustainability disclosure score based on Business Responsibility and Sustainability Reporting (BRSR) framework. These scores are further used to examine the impact of sustainability performance on financial performance employing regression model. ROE and ROA and are used to measure the financial performance.

With sustainable development and the climate change movement gaining momentum, the sustainability reporting landscape is changing rapidly around the globe. It is now incumbent on companies to report their sustainability performance in order to maintain transparency with stakeholders. Sustainability reporting frameworks have evolved over time and companies worldwide have adopted these frameworks for measuring, monitoring and disclosing performance in areas related to environmental, social and governance (ESG). The reporting landscape has ended now with Business Responsibility and Sustainability Report (BRSR).Number of words in Abstract: 188 words

Key words: Business Responsibility and Sustainability Report, Financial Performance, ROE, ROA, Regression Model.

Introduction

Now a days, the effect of climate change, the importance of governance and stakeholder's protection are gaining importance. The United Nation Climate change 2021 Conference (CO - P26) held at Glasgow focussed upon the ways of managing climate change *by increasing the energy requirements from renewable energy* and *reducing the carbon emissions by 2030*[2]. India has concluded in conference (COP- 26) that "the world needs intentional and thoughtful use of resources rather than mindless and harmful consumption"[1].

These issues paved the way for the investors to prefer sustainability investments in companies.The concept of sustainability has garnered immense prominence in the working of corporations which are now fusing the environmental, social and governance (ESG) factors in their investment decisions. Organizations, investors and regulators are realizing the necessity of achieving the sustainable development goals (SDGs)[2].

The aim of sustainable development is to meet the needs of the present without compromising the ability of future generations to meet their own needs.(Garg, 2006). According to Andrew Hewett, Global Sourcing Development Manager, "If we do not focus on sustainability, then we will not be able to sell products in the future. We will not have a supply or customers may not buy from us." The corporate have to take care of not only corporate sustainability (Profitability) and also environmental sustainability.

The World Business Council for Sustainable Development (2003) defines sustainability reporting as "public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions".

GRI (2006) defines sustainability reporting as "the practice of measuring, disclosing, and being accountable for organisational performance while working towards the goal of sustainable development".Due to the increasing environmental and social concerns worldwide, there has been a major shift in the reporting standards in the last decade. This has created a need to look more closely into the reporting issues to be addressed by a country like India. As part of its efforts to improve the Environment Social and Governance (ESG) disclosures, new criteria for sustainability reporting were introduced by Security Exchange Board of India (SEBI).(Menghnani, 2022).

EVOLUTION OF BRSR

2009 - The MCA issued National Voluntary Guidelines (NVGs) on corporate social responsibility to guide the companies and foster the feelings of social responsibility in them for the wellbeing and prosperity of the country[3].

2012 - SEBI made it compulsory for the top 100 listed companies by market capitalisation to file Business Responsibility Report (BRR) based on NVGs, along with their annual reports It includes not only principles but also strategy and indicators for reporting.

2014 - Corporate Social Responsibility (CSR) becomes mandatory and CSR rules come into force

2015 - Filing BRR was extended to the top 500 companies by market capitalisation

2017 - Filing BRR as integrated reporting along with financial data was extended to the top 500 companies by market capitalisation

2019 - National Guidelines of Responsible Business Conduct (NGRBC) is released which includes 9 principles by taking base as United Nations Guiding Principles on business and Human Rights (UNGPs).

2021 - SEBI introduced Business Responsibility and Sustainability Reporting (BRSR) in May. The new BRSR framework is mandatory from FY2023 for the top 1,000 listed companies by market capitalisation. For FY2022, it is voluntary for them.

Listed companies other than the top 1,000 and unlisted company may voluntarily submit a BRSR report FY2022 onwards.[3]

Comparison of BRSR and BRR

Base for comparison	Business Responsibility and Sustainability Report	Business Responsibility Report
Reporting Sections	Three Reporting Sections: •General Disclosures •Management and processes •Principle wise performance	Five Reporting Sections: • General Information • Financial Details • Other Details • BR Information • Principle wise performance
Format	Essential Indicators Leadership Indicators	Universal /Single format
Questions	140 Questions in which Mandatory are 98 and Leadership are 42	59 Questions
Indicators	Qualitative and Quantitative	Qualitative
Disclosure	Annual Report and MCA21 Portal	Annual Report

Source:https://assets.ey.com/content/dam/ey-sites/ey-com/en_in/topics/climate-change/2023/ey-business-responsibility-and-sustainability-reporting.pdf

The reporting structure of BRSR released by Ministry of Company Affairs:

Section A: The basic information and details of companies including operations, product and services, holding and subsidiary companies, joint ventures and transparency and disclosure.

Section B: information on policies and processes relating to the NGRBC principles concerning leadership, governance, and stakeholder engagement.

Section C: Principle wise performance disclosure is made based on the 9 principles of NGRBC which are in tune with Sustainable development goals (SDG). The essential indicators are the indicators which the company mandatorily needs to report, which include environmental data such as energy, emissions, water, and waste; trainings conducted; community initiatives undertaken by the company and social impact created by the company[5]. Leadership indicators are not mandatory to be reported by the company yet. However, there is a broader expectation that companies would be compliant with these indicators for improved transparency and greater accountability[5].

The nine principles are

P1 Business should conduct and govern themselves with Ethics, Transparency and Accountability.

P2 Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle

P3 Businesses should promote the wellbeing of all employees

P4 Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized

P5 Businesses should respect and promote human rights

P6 Business should respect, protect, and make efforts to restore the environment

P7 Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner

P8 Businesses should support inclusive growth and equitable development

P9 Businesses should engage with and provide value to their customers and consumers in a responsible manner

The Ministry of Corporate Affairs Committee Report explores connections between the National Guidelines on Responsible Business Conduct principle and the Sustainable Development Goals. Business Responsibility and Sustainability Report is aligned with the SDGs so companies can validate their performance on Sustainable Development Goals targets[4].

Mapping of BRSR principles to the United Nations Sustainable Development Goals (SDGs)

Principle C in BRSR/Goal in SDG	1	2	3	4	5	6	7	8	9
1. No Poverty			✓	✓				✓	
2. Zero Hunger		✓				✓	✓	✓	✓
3. Good Health and well being			✓			✓		✓	
4. Quality Education			✓					✓	✓
5. Gender Equality			✓	✓	✓			✓	
6. Clean Water and Sanitation		✓				✓		✓	
7. Affordable and Clean Energy		✓					✓		
8. Decent work and economic growth		✓	✓		✓	✓		✓	
9. Industry, Innovation and Infrastructure		✓	✓	✓				✓	
10. Reduced inequality		✓				✓	✓		
11. Sustainable cities and community			✓	✓			✓	✓	
12. Responsible consumption and production		✓				✓			✓
13. climate action		✓				✓	✓	✓	
14. Life below water									
15. Life on land									
16. peace and justice strong institution	✓		✓	✓	✓			✓	
17. Partnership to achieve the goal	✓						✓	✓	

Source: ey-business-responsibility-and-sustainability-reporting.pdf

Having realised the impact of sustainable reporting on financial performance of the company, few companies In India voluntarily have started reporting on sustainability along with additional information to the stakeholders. This paper has analysed the impact of sustainability disclosure on financial performance of selected companies and also comparative study of BRR and BRSR Report of the specified companies.

Review of Literature

(Goel & Ramesh, 2016) studied the relationship of corporate ethical identities and financial performance of Indian companies. Corporate governance, corporate social responsibility and sustainable reporting were taken as measures of ethical identity (Independent Variable). Dependent variables chosen were Tobin Q, P/E, PB and accounting variables ROS, ROCE and ROE. It was recommended that only sustainable reporting has an important impact on financial performance rather than the other parameters, corporate governance and corporate social responsibility. It was concluded that there is a need for mandatory disclosure of ethical practices by Indian companies in order to compete with international companies.

(Shantaram, n.d.) studied the correlation between ethical corporate practices and corporate financial performance. The study established a positive correlation across all the 7 financial parameter/indicators and ethical business practices.The author of "Sustainability practices and corporate financial performance: A study based on the top global corporations" tested whether the companies which engage superior sustainable practices, have higher financial performance compared to those that do not engage in such practices. The findings showed that the higher financial performance of sustainable companies has increased and been sustained over the sample. (Ameer & Othman, 2012)

(TLaskar, N., Chakraborty, T. K., & Maji, 2017) explored the disclosure of corporate sustainability (CS) practices and to examine the association between sustainability performance and financial performance in Asian context considering firms from India and Japan. It was found that, the influence of CS performance on financial performance was more in case of Japan than that of India.(Paúl Sarango-Lalangui, n.d.) in his study aimed to find out if small and medium-sized enterprises in this country are involved in the adoption of sustainable practices and to analyse whether there is significant difference in adoption based on size, age and sector. concluded that the size of the companies in the market does not influence the level of implementation of the practices related to the results obtained. It was observed that micro enterprises show greater interest to make known their commitment to sustainability by recording it in their documents of vision, mission, and values.

Objectives of the study

Primary Objectives

The main objective of the study is to analyse the impact of sustainability reporting practice on performance indicators in Indian companies.

Secondary Objectives

The additional objectives of the study are

1. To measure the sustainability disclosure score of sample companies over the period of study through the parameters in BRSR reporting.
2. To analyse the score of BRSR and BRR disclosure and find its impact on financial performance.
3. To study the relationship of sustainability disclosure score and financial performance.
4. To purpose suggestion for transparency in the disclosure of sustainable practices.

Research Methodology

The Scope of the study is limited to the large-scale companies. The companies are chosen based on market capitalisation. The cross-sectional study is based on secondary data of companies available in websites. The dependent variable, Sustainability disclosure score have been determined with the help of integrated annual report and BRSR report. The financial data are gathered from DION Insight, database software.The analysis is done with Business Responsibility Report of 2021-22, Business responsibility and sustainability report of 2021-2022 and 2022-23.

The study have taken into account ROA and ROE as the Independent Variable.Paired T test and Regression analysis are done through Statistical Package for the Social Sciences Version 16 (SPSS 16.0) to analyse the data

Hypothesis

- Sustainability Reporting Practices

1. Descriptive analysis of all variables and Company Wise analysis of selected companies
2. Sustainability disclosure score analysis of selected companies for three years through comparison of BRR and BRSR

- Correlation between sustainability reporting practices and financial performance

Ho1: There is no relationship between sustainability reporting practice and financial performance.

Ha1: There is relationship between sustainability reporting practice and financial performance

- Impact of the sustainability reporting practices on financial performance variable

Ho2: Overall sustainability reporting practice of company has no impact on its financial performance

Ha2: Overall sustainability reporting practice of company has impact on its financial performance

Sustainability Reporting Practices

The Descriptive statistics for various variables used in the study have been shown in Table 1 below.

Table1: Descriptive Analysis

	Mean	Mini	Maxi	Standard deviation
BRSR2023	56.00	49	60	4.848
BRSR2022	55.60	48	61	5.771
BRR2021	52.80	46	61	7.328
ROA22-23	27	6	93	37.249
ROA21-22	10.40	1	18	6.348
ROA20-21	10.40	3	19	6.465
ROE22-23	9.60	9	32	8.927
ROE21-22	16.60	6	29	9.236
ROE20-21	16.60	3	25	8.385

Source: Primary Data

From Table 1, It is observed that the mean value of BRSR of 2022-23 is 56 followed by ROA of 2022-2023 is 27. But ROE of 22-23 is minimum. This highlights that the companies are efficiently disclosing the sustainability data according to BRSR requirement and influences the financial performance in the satisfactory manner

Company Wise analysis of selected companies

Table 2: Company Wise analysis Reporting Score of selected companies

S NO	Company	BRR2021	BRSR2022	BRSR2023
1	Tata Chemicals	46	60	60
2	Info sys	61	61	60
3	Ambuja cement	51	51	53
4	Havells	60	58	58
5	Wipro	46	48	49

Source: Primary Data

The integrated reports and BRSR reports of the selected companies have been analysed for the disclosure of selected BRSR parameters. The study has taken 61 Parameters for analysis. Table 4 shows that Infosys have been reporting the maximum number of parameters in all the three years. Followed by Tata Chemicals, Havells and Ambuja Cements. It also shows that Wipro has reported minimum number of parameters in all the three years.

Sustainability Disclosure Analysis of selected companies for three years through comparison of BRR and BRSR

The Comparative analysis of BRR and BRSR report of selected companies are done with paired t-test. The comparison is done between 2021 vs 2022 and 2021 vs 2023.

Table 3: Paired t-Test Results for Change in Sustainability Reporting of selected parameters (FY 2021 vis-à-vis FY 2022 and FY 2021 vis-à-vis FY 2023)

Variable	Mean	Standard Deviation	T statistics	Sig (2 tailed)
Pair 1 BRR2021 & BRSR2022	2.800	6.419	.975	.385
Pair 2 BRR2021 & BRSR 2022	3.200	6.380	1.122	.325

Source: Primary Data

According to the result, The Paired t-test results interpret that the sustainability reporting disclosures of selected companies has improved over the study as t-statistics (.975 and1.122) is positive. Table 2 through comparative study interprets and support the paired t test that the sustainability reporting score of all selected companies except Havells have improved over the study period.

Correlation between Sustainability Reporting Practices and Financial Performance

Table 4: Pearson Correlation between sustainability reporting practices and ROA

	ROA	BRR2021	BRSR2022	BRSR2023
ROA	1.000	.772	.295	.254
BRR2021	.772	1.000	.542	.514
BRR2022	.295	.542	1.000	.992
BRR2023	.254	.514	.992	1.000

Table 5: Pearson Correlation between sustainability reporting practices and ROE

	ROE	BRR2021	BRSR2022	BRSR2023
ROE	1.000	.739	.225	.131
BRR2021	.739	1.000	.542	.514
BRR2022	.225	.542	1.000	.992
BRR2023	.131	.514	.992	1.000

Source: Primary Data

The Table 4, and Table 5 show that there is positive co relation between sustainability reporting practices and Financial Performance. Thus, null hypothesis is rejected.
The alternate hypothesis is accepted thereby stating that there is relationship between sustainability reporting practices and financial performance.

Impact of the sustainability reporting practices on financial performance variables

Regression analysis is applied to find the impact of sustainability reporting practices on financial performance variables. Sustainability reporting score for the three years are independent variables. ROA, and ROE as financial performance variable are Dependent Variables.
Impact of sustainability reporting for the current year 2023 has been checked for short run analysis. Impact of sustainability reporting for the previous years 2021 and 2022 have been checked for long run analysis.

Table 6: Regression analysis

Independent Variable	R	R Square	Adjusted R square	Std Error of the Estimate	R Change	F Change	df 1	df 2	Sig.F Change
ROA	.800	.640	-.441	50.75163	.640	.592	3	1	.716
ROE	.963	.928	.713	13.33297	.928	4.313	3	1	.337

Source: Primary Data

The observation of Table 6 is as follows. The sustainability reporting practices has positive but insignificant impact on financial performance (especially ROE) of the company.

Table 7: Impact of sustainability reporting practices on performance variables (Regression Results using ROA as performance variable)

Model	Unstandardized Coefficient		Standardized Coefficient	t	sig
	B	Std. Error	Beta		
(Constant)	-38.446	493.891		-.078	.951
BRR2021	4.756	4.223	.825	1.126	.462
BRSR22	7.861	36.426	1.073	.216	.865
BRSR23	-10.763	42.488	-1.234	-.253	.842

Source: Primary Data

Table 8: Impact of sustainability reporting practices on performance variables (Regression Results using ROE as performance variable)

Model	Unstandardized Coefficient		Standardized Coefficient	t	sig
	B	Std. Error	Beta		
(Constant)	195.213	129.750		1.505	.373
BRR2021	2.434	1.110	.716	2.193	.272
BRSR22	19.511	9.569	4.523	2.039	.290
BRSR23	-24.259	11.162	-4.725	-2.173	.275

Source: Primary Data

Table 7 shows that the sustainability reporting disclosure score for the year 2021 and 2022 have a positive impact on ROA whereas score for 2023 have negative impact on ROA. Table 8 shows that the sustainability reporting disclosure score for the year 2021 and 2022 have a positive impact on ROE whereas score for 2023 have negative impact on ROE. Most of beta values are positive. Therefore, sustainability reporting score has positive impact on financial performance in the long run and negative impact in the short run. We accept the first null hypothesis Ho2 and reject the first alternate hypothesis Ha2.

Discussion

The study can be interpreted in the following manner. The sustainability reporting disclosures of the selected companies have increased over the period of study. This has provided the increase in the value creation, strong brand position and retention of talented employees. This helps the companies to concentrate more on transparency and accountability of its operations. The sustainability disclosures have a great impact on financial performance. The stake holders of the company give more importance in the transparency of BRSR reporting practices. This has been revealed through regression analysis of ROE. The similar findings are found in the study on impact of sustainability reporting on financial performances of selected companies. (Ameer & Othman, 2012). The comparison of Business Responsibility Reporting and Business Responsibility Sustainability Reporting reveals the following benefits in BRSR[6]

1. Environment, social and governance aspects are segregated to capture high quality disclosures.
2. Companies are expected to identify their stakeholders and disclose interaction type and frequency.
3. Stake holders can rank companies with respect to ESG performance and disclosures.

Conclusion

The study intends to test the impact of sustainability reporting practices of the company on financial performance. The positive impact in short run and negative impact in long run is being identified from the study. BRSR implementation would make business in India to reach higher disclosure levels in their quest in order to be socially environmentally and ethically responsible. The challenges the company may face in the implementation may be difficulty in updating process and policies for implementing BRSR requirements for enhanced ESG performance. Companies transitioning to BRSR from BRR or planning to develop BRSR with no prior experience may consider BRSR lite as the starting point to understand the requirements[4].

Limitations and Future Research

The study contains some limitations. The research was done on five companies for recent three years as sample. Researcher should be cautious while generalising the study. Industry wise comparison and also analysis of impact of sustainability reporting on MSME can also be done. More variables can be used in the analysis.

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