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ESG SCORE IN SELECTED LISTED INDIAN COMPANIES- THE NEW PARADIGM FOR INDIA

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Abstract
ESG (Environmental, social and governance) criterions are of growing attention to companies, their external parties. With growing distress about the ethical position of noted companies, these standards are the vital factors that compute the ethical contact and sustainability of outlay in a corporation. ESG factors wrap a wide range of factors that have customarily been disqualified from economic analysis.

Many large financial institutes are realizing that their definition of what is economically requirements to grip environmental, social and governance (ESG) factors. These factors are now striking vital in decision-making. External parties are interested to lessen risk and take hold of opportunities by enhancement equity proceeds, rearranging portfolios and rhythm the green tie marketplace. ESG indicates about one-quarter of all proficiently resources across the world.

In 2020 the thrust has full-fledged as the pandemic has tinted the significance of accountable, environmentally responsive escalation. Further, there are growing load for a green revival the world over. Consumers have also turn into more learned and have on track actively searching for sustainable goods and companies also take care of their external parties. And further it indicates that investors are having trust in ESG funds and the turnover of these funds have boosted very speedily. It has been revealed that companies which are having high rank on ESG will provide higher returns and be inclined to having less cost of capital and other cost. The further details of this topic are outlined and examined in this research paper.

Key words: ESG, PANDEMIC, RETURN, RISK.

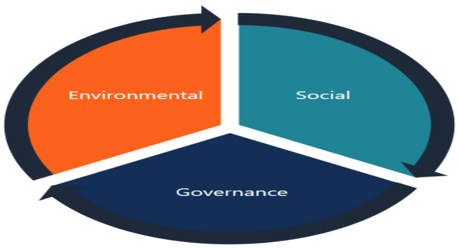
Introduction:

ESG stands for Environmental, Social and Governance-associated viewpoints need to compute the conduct the companies interrelate with all their external parties as a part of their trade processes. ESG is not presently about socially accountable business but a to a great extent way of indicating sustainable business practices. Investors can reservoir on ESG analysis to know the long-standing sustainability of a business as well as any risks and threats are involved with it.

A strong ESG practice enhanced an organization to keep good status. They hold lower risk prospect because they fit in sustainability as a center value. This outcome in stable and more enduring act for the business over the years. On the opposite, an organization with a lower ESG runs the risk of unsteadiness, high-risks and more noteworthy latent for impulsive losses for the long term.

For ESG, the environment indicating disclosure related environmental, impact on environment and any practices to reduce the effect of carbon emissions. Social refers to the place of work attitude such as multiplicity, human privileges and management. This also involves any association nearby the society – philanthropy and corporate social responsibility. On the other hand, authority accounts for shareholder rights, return, and the connection between management and shareholders. In India too, ESG investing increased diverse over the last several years, thanks to better policy reforms and awareness.

ESG:



Environment: Focus on the environment related factors like environment policy, environment policy and steps taken for reducing pollution.

Social: It covers a large aspect because its affect whole society so it includes human values, corporate social responsibility and ethics.

Governance: Responsible for wages and compensation, rights of shareholder, and the relationship between shareholders and management

REVIEW OF LITERATURE:

1.Eccles RG, Saltzman D.(2011) Achieving Sustainability through Integrated Reporting. Stanford Social Innovation Review. Leland Stanford Jr. University.

More companies are willingly to make ESG report in adding up to its financial reports in arrange to make available more applicable in order to review its economic and non- economic performance.

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2. Frias-Aceituno JV, Rodríguez-Ariza L, Garcia-Sánchez IM.(2014) Explanatory Factors of Integrated Sustainability and Financial Reporting. Business Strategy and the Environment; 23: 56-72

In recent times, there is an growing insist for integrated coverage which companies are need to bring out a report to contain both sustainability and financial statements in order to lessen governance costs, political costs and in sequence asymmetries and combined reporting gives a greater clarification of performance.

3. Murphy D, McGrath D. Australian(2015) class actions as a potential motivator for environmental, social and governance (ESG) reporting.

The Social and Environmental Accounting (SEA) literature gives a variety of opinions and suggestions on and about the significance of corporations attached to ESG viewpoint of the society within which they activate but rarely of these think the motivations after corporate environmental reporting, prevention and evading of civil authoritarian accomplishment is planned as an interchange motivation for such treatment, and an area for further research.

4. Kocmanova A, Nemecek P, Docekalova M.(2012) Environmental, Social and Governance (ESG) Key Performance Indicators for Sustainable Reporting. 7th International Scientific Conference "Business and Management; 655-662.

One of the input issues is how to fix the value of ESG reports. Presently there are many international organization and institutes such as Global Reporting Initiative (GRI), United Nations Conference on Trade and Development (UNCTAD), The European Federation of Financial Analysts Societies (EFFAS) and regulatory bodies such as Hong Kong Stock Exchange (HKEx) develop the Key Performance Indicators (KPIs) for ESG reporting. Various organizations like United Nations, G20, OECD, European Union, and various countries such as Netherlands, France, Germany, United Kingdom, India, Japan, Philippines, and Vietnam etc. initiate the disclosure of ESG information in reporting. This creates the troubles of lack of accord, and companies may select factors which only gives positive results. So, it is necessary to start a exclusive set of ESG key performance indicators to hold investors' decisions. By deal with ESG problems and corporate governance in relation to the capacity of business performance, as well as its constant accomplishment.

5. Bernardi C, Stark AW.(2016) Environmental, social and governance disclosure, integrated reporting, and the accuracy of analyst forecasts. The British Accounting Review; 1-16.

Bernardi and Stark find proof of a strengthened relationship between ESG, environmental and governance indicate levels and analyst estimate precision following the opening of Integrated Reporting for both financial services firms and the other sectors.

TITLE OF THE STUDY:

After going through existing literature in the library, researchers has selected topic as under:

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OBJECTIVES OF THE STUDY:

The main objectives of the study are stated below:

1. To indicate the role of ESG score in selected Indian companies in an effective way.
2. To provide direction to the company and organization towards ESG Score.

ESG in India:

The most recent decade has seen a progression of technique changes that have prompted the better addition of ESG in Indian associations. In the year 2007, Reserve Bank of India (RBI) gave a correspondence to all booked business banks, clarifying them on their part on Corporate Social Duty, manageable turn of events and non-budgetary revealing. In the year 2008, CRISIL, Standard and Poor, KLD Exploration and Investigation dispatched the S&P ESG India Record, first investable file of organizations whose business techniques and execution show a significant level of responsibility towards satisfying ESG guidelines.

In 2009, the Ministry of Corporate Affairs (MCA) gave Corporate Social Responsibility (CSR) rules. It prescribed all organizations to detail a CSR strategy based on six center components care for partners, appropriate working, regard for laborers' privileges and government assistance, regard for common freedoms, regard for the climate, and exercises for social and comprehensive turn of events. In 2010, the Department of Public Enterprises (DPE) gave CSR rules for Central Public Sector Enterprises (CPSEs), requiring Public Sector Enterprises to have a CSR strategy affirmed by their particular governing body.

In 2011, MCA gave National Voluntary Guidelines (NVGs) on social, environmental and economic responsibilities of business. These guidelines applicable to all the companies in India. They also details in the form of Business Responsibility Report (BRR) include the nine principles.

In 2012, the Securities and Exchange Board of India (SEBI) issued a circular that made it compulsory to publish business responsibility report (BRR) for the largest 100 listed companies. Then it is also extended for the largest 500 listed companies. Bombay Stock Exchange (BSE) launched Greenex and Carbonex.

In the year 2013, MSCI India ESG Leaders Index was dispatched. In 2014, a milestone CSR law was passed to order organizations of a specific scale and gainfulness to burn through 2 percent of normal benefits of going before years. In 2015, RBI included social foundation and environmentally friendly power inside the Priority Sector Lending necessities for banks.

In 2016, SEBI distributed its green bond rules, making India the second nation after China to give public level rules. Indian Bank's Association came out with the National Voluntary Guidelines for Responsible Financing to give a deliberate and normalized system of activity taking into account banking area's dangers, openings and obligations around climate, social and monetary variables in an incorporated way.

In 2017, Kotak Committee on corporate administration was framed. In 2018, the Bombay Stock Exchange (BSE) distributed Guidance Document on ESG Disclosures, which filled in as a far reaching set of intentional ESG revealing proposals, guided by worldwide maintainability detailing systems. It underscores the significance of ESG revelations to financial specialists and gives 33 explicit issues and measurements on which organizations should center. Clever 100 ESG Index was dispatched.
In 2019, MCA further reconsidered NVCs to National Guidelines on Responsible Business Conduct (NGRBC) to line up with SDGs and the 'Regard' mainstay of the United Nations Guiding Principles (UNGP). MCA is currently building up India's National Action Plan on Business and Human Rights (in counsel with different Ministries and State Governments) by 2020. A zero draft has been delivered and transferred on MCA site.
Based on all these guiding principle more than the years, ESG developed in India, leading for better governance practices and transparency.

ESG components:

1. **Environment:**

Makes a specialty of a enterprise's environmental disclosure, environmental impact, and, any efforts to lessen pollution or carbon emissions.

Climate Change	Natural Capital	Pollution
Green House Gas disclosure	Air and water pollution	Waste management
Emissions of air	Water management	Plastic waste
	Climate change and carbon emissions	Electronic waste

2. **Social:**

Refers to creating societal health either in the workplace or in society at huge. It consists of numerous ideas including range, human rights, philanthropy and corporate citizenship.

Human Capital	Customer	Social Opportunities
Employee management	Health & Safety	Opportunities in community welfare
Employee welfare	Environment	Opportunities in Employee management
Health & Safety	Social	Opportunities in Supply chain management
Human Capital development	Financial Literacy	

3. **Governance:**

Money owed for repayment, shareholder rights, and the relationship among shareholders and control.

Corporate Governance	Corporate Policies	Disclosure
Board charter & board committee	data privacy-Customers	Disclosure of Responsible business reporting framework
Executive level Management	Biodiversity policy	Disclosure of External assurance
Sustainable development goal	Responsible business policy	Disclosure of contact assessment
	Employee policies	Joint venture

GAP ANALYSIS:

On the basis of evaluation of literature and objectives, researcher found the gap in this area. After considering a few research have been taken for the study, researcher is found following gap:

1. ESG is a new paradigm and yet it was not studied in an effective manner.
2. Ethics might become more important than performance.

RESEARCH METHODOLOGY:

Researcher analyzed all the statistics based on secondary facts. companies are ranked on their recognition on accountable enterprise with the aid of developing a combined score that weighs each of the 3 parameters.
The rankings are arrived at through comparing each enterprise's sustainability/GRI reports, organization annual reports and agency web sites by using an analyst who scored primarily based on some of dimensions below the 3 parameters. The scoring turned into saved goal by requiring the analyst to attain primarily based on the presence or absence of the measurement.
The ranking is calculated on a weighted average of these three factors. For the purpose of data analysis researcher assign a 35% weight to Environment, 30% to Social, and, 35% to Governance. The highest score that a company will get is 100.

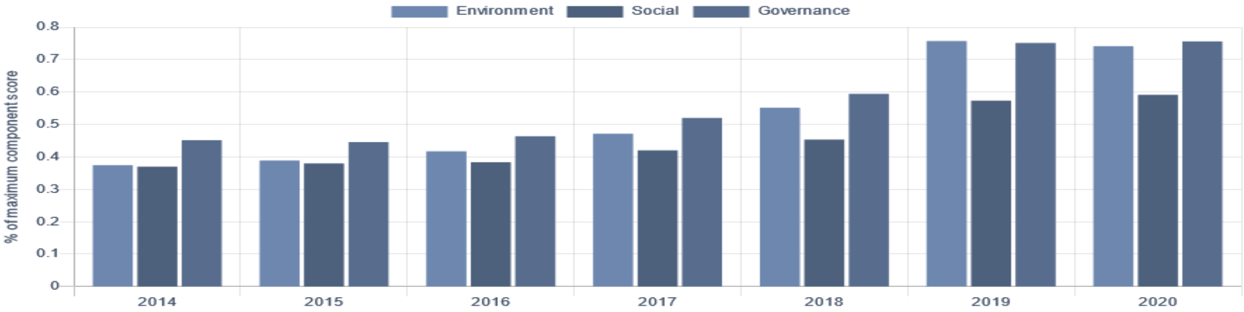
ESG Score:

ESG overall performance of an organization is measured on three pillars: environmental, social and governance. Sustainalytics has described set of signs which examine the organization's overall performance within every criterion. On every relevant indicator, a corporation is assigned a rating of 0 to 100. The burden of each indicator relies upon on the relevance and significance of the indicator in the region wherein the organization operates. based on the uncooked score and weight of all relevant signs throughout E, S and G pillar, a weighted common organization level ESG rating is decided, which degrees from 0 to 100.

The groups are assessed annually through Sustainalytics based totally on annual filings & different assets. Moreover, groups are monitored on an ongoing foundation for any controversy concerning ESG.

DATA ANALYSIS:

1.Rise of ESG:



ESG is rising constantly and the analysis is done based on the data available on 2014 to 2020. ESG in which all the three components playing an important role. So based on that we also see from the above diagram that in the year 2020 the element of governance highest one and environment and after that the component is social. To sum up, we can say that the ESG is rising year by year.

2. ESG Performance:

Corporations undertake many styles of responsible enterprise sports. It's hard to realize without problems the breadth and scope of their work. So right here its miles represented by way of blended rating of the environmental, societal and governance parameters.

Rank	Company	Rank	Company
1	Infosys Ltd.	6	Wipro Ltd.
2	Mahindra & Mahindra Ltd.	7	Hindustan Unilever Ltd.
3	Tata Chemicals Ltd.	8	Godrej Consumer Products Ltd.
4	ITC Ltd.	9	Grasim Industries Ltd.
5	Vedanta Ltd.	10	Bharat Petroleum Corporation Ltd.

Improvement of performance:

Even though we had been noting extended disclosures across years, this 12 month's examine highlights a growth inside the number of companies that supplied integrated reporting. From the preceding 12 months the variety of companies providing included reviews has improved extensively with 26% of businesses reporting on this format these 12 months. At the same time as extra organizations are transferring towards incorporated reporting, at the equal time, groups are also generating multiple reports. For instance a agency may additionally have an incorporated document, CSR record, as well as a sustainability report. Businesses carry out pretty evenly throughout environmental and governance parameters. On social front, companies want to perform better. Governance and social got a leg up with the passage of organizations Act 2013, even as surroundings although essential for pretty a while has benefitted from the frenzy with the signing of the Paris Accord.

	Environment	Social	Governance	Total
Average Scores (a)	26.8	18.8	25.6	72.2
Median Scores (b)	27	20	29	73
Highest Score (c)	36	27	35	89
Lowest Score (d)	4	12	12	30
Average Score/Highest Score (a/c)	74.44%	69.62%	73.14%	81.12%
Percentage companies that score more than 50% scores	93%	71%	97%	96%

Comparison of average score:

Researcher has also taken sample for the purpose of analysing manufacturing and service sector companies and an analysis done also for the selected public and private companies in an effective manner.

Manufacturing and services

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Manufacturing and services sectors are ranked below:

Rank	Manufacturing companies		Service companies	
1	Mahindra & Mahindra Ltd.		Infosys Ltd.	
2	Tata Chemicals Ltd.		Wipro Ltd.	
3	ITC Ltd.		Tech Mahindra Ltd.	
4	Vedanta Ltd.		Tata Consultancy Services Ltd.	
5	Hindustan Unilever Ltd.		Adani Ports & Special Economic Zone Ltd.	
Average scores	**Environment**	**Social**	**Governance**	**Total**
Manufacturing	28.7	18.0	29.3	76.0
Services	25.5	18.8	26.0	70.3

Based on the above table, manufacturing sectors are performing better than service sectors.

Public and private

Public and private sectors are ranked below:

Rank	Public companies			Private companies
1	Bharat Petroleum Corporation Ltd.			Infosys Ltd.
2	Indian Oil Corporation Ltd.			Mahindra & Mahindra Ltd.
3	GAIL (India) Ltd.			Tata Chemicals Ltd.
4	Hindustan Petroleum Corporation Ltd.			ITC Ltd.
5	NTPC Ltd.			Vedanta Ltd.
Average scores	**Environment**	**Social**	**Governance**	**Total**
Public	22.5	19.8	25.4	67.7
Private	27.9	18.5	28.3	74.7

Based on the above table, Private sector companies performing better than public companies.

FINDINGS OF THE STUDY:

- In the selected samples, Infosys Ltd. Achieved First rank in overall analysis.
- Based on the data analysis, Companies are more focusing on Environment and Governance.
- The factor social in which many companies ESG scores is lesser compare with the other two aspects. Social need to be focused more.
- Average score analysis in which manufacturing sectors are performing better than service sectors.
- Average score analysis in which Private sector companies performing better than public companies.

LIMITATIONS OF THE STUDY:

The following limitations are:

1) Limitation of secondary data will remain with the study of the ESG score.
2) The study was limited to reflect the score of ESG.
3) Perception and understanding of corporate regarding ESG score may be different.

CONCLUSION:

To sum up, concluding whole things we can say that ESG Score and the concept of ESG provide a vision for best corporate governance practices. ESG is set of all principles and ethical standard for effective management. ESG provides a vision for an organization to follow with true letter and spirit and further we can say that-

“ESG is adherence to ethical standards.”

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