2 Environmental, Social and Governance (ESG) Practices in India: Trends, Regulatory Framework and Corporate Adoption

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Abstract

Environmental, Social, and Governance (ESG) have emerged as a critical framework for evaluating corporate sustainability, ethical business practices, and long-term value creation. In recent years, ESG has gained global significance as investors, regulators, and other stakeholders increasingly expect companies to operate responsibly and transparently. ESG integrates three key dimensions—environmental protection, social responsibility, and corporate governance—into organizational decision-making and reporting processes. The environmental component focuses on issues such as climate change, resource management, pollution control, and energy efficiency. The social dimension emphasizes employee welfare, labor practices, diversity and inclusion, human rights, and community engagement. Governance, on the other hand, relates to ethical leadership, board independence, transparency, risk management, and accountability within organizations. This study examines the concept of ESG and analyses the regulatory framework, corporate adoption, and challenges associated with ESG implementation in India. The research is based on secondary data collected from academic literature, regulatory guidelines, industry reports, and corporate sustainability disclosures. The study highlights the increasing integration of ESG principles into corporate strategies and investment decisions in India. It also identifies key challenges such as lack of standardized ESG metrics, data reliability issues, high compliance costs, and the risk of greenwashing. The findings suggest that while ESG adoption in India is gradually expanding, stronger regulatory oversight, improved reporting standards, and greater participation from companies across sectors are necessary to enhance the effectiveness of ESG practices.

Keywords: ESG, Sustainability Reporting, Corporate Governance, Responsible Business, BRSR, Sustainable Finance.

Introduction

In the contemporary business environment, organizations are increasingly expected to operate responsibly and sustainably. Traditionally, corporate performance was evaluated primarily based on financial indicators such as profitability and shareholder returns. However, stakeholders—including investors, regulators, employees, and society—now demand that companies also consider environmental impact, social welfare, and governance standards. Environmental, Social, and Governance (ESG) criteria provide a comprehensive framework for evaluating corporate sustainability and ethical conduct. ESG has become an essential factor influencing investment decisions and corporate strategy worldwide. Investors increasingly favour companies that demonstrate strong ESG performance because such companies are considered more resilient and sustainable in the long term. In the Indian context, ESG practices have gained momentum due to rising investor awareness, global sustainability commitments, and regulatory initiatives introduced by policymakers. The Securities and Exchange Board of India (SEBI) has played a significant role in promoting ESG disclosure through the introduction of the Business Responsibility and Sustainability Report (BRSR) framework, which requires the top listed companies to disclose ESG-related information in their annual reports. India has witnessed significant growth in ESG adoption over the past decade. Regulatory authorities have introduced several policies to strengthen sustainability reporting and transparency. One of the most important developments is the Business Responsibility and Sustainability Report (BRSR) introduced by the Securities and Exchange Board of India (SEBI), which requires the top listed companies to disclose ESG-related information. Overall, ESG is expected to play a crucial role in shaping the future of corporate governance, sustainable development, and responsible investment in India. Companies that successfully integrate ESG principles into their operations are likely to achieve long-term sustainability, improved stakeholder trust, and enhanced competitive advantage in the evolving global business environment.

Concept and Definitions of ESG

- Environmental (E): Focuses on how corporate activities affect the natural environment, including carbon emissions, energy use, waste management, and climate change mitigation.
- Social (S): Examines how companies manage relationships with employees, communities, customers, and other stakeholders. It includes labour rights, workplace safety, diversity and inclusion, and community development.
- Governance (G): Refers to systems and processes that ensure accountability, transparency, and ethical conduct within organizations, including board independence, risk management, and shareholder rights.

Literature Review

Research shows a strong relationship between ESG performance and long-term financial performance. Studies indicate that companies adopting sustainability practices tend to experience improved reputation, risk management, and investor trust.

In India, ESG adoption has been influenced by regulatory initiatives and international investment trends. The National Guidelines on Responsible Business Conduct and SEBI's BRSR framework have encouraged Indian companies to improve ESG disclosures. However, challenges such as inconsistent reporting standards and greenwashing continue to affect the credibility of ESG reporting.

Regulatory Framework for ESG in India

- **Business Responsibility and Sustainability Report (BRSR):** The BRSR framework introduced by the Securities and Exchange Board of India requires the top 1,000 listed companies to disclose ESG-related information in their annual reports. The framework is based on the National Guidelines on Responsible Business Conduct and focuses on principles such as environmental sustainability, employee well-being, ethical governance, and stakeholder engagement.
- **BRSR Core Framework:** To improve reliability and comparability of ESG disclosures, SEBI introduced the BRSR Core framework, which identifies key ESG indicators that must be verified and assured by independent agencies**.**
- **Corporate Social Responsibility (CSR):** Under the Companies Act, 2013, certain companies are required to spend at least 2 percent of their average net profits on CSR activities. CSR initiatives often support social and environmental development projects such as education, healthcare, and environmental protection.
- **Sustainable Finance and ESG Investments:** India has also witnessed the growth of sustainable finance instruments such as green bonds and ESG-focused investment funds. These instruments encourage companies to invest in environmentally sustainable and socially responsible projects.

Research Methodology

This study is based on secondary research methodology. Data has been collected from academic journals, corporate sustainability reports, government publications, and regulatory guidelines related to ESG practices in India. The collected information was analysed to identify trends, regulatory frameworks, and implementation challenges.

ISBN: 978-93-49468-84-9

ESG Indicators

- Environmental Indicators: Carbon emissions, renewable energy usage, water conservation, waste management.
- Social Indicators: Employee welfare, diversity and inclusion, labour practices, community engagement.
- Governance Indicators: Board independence, transparency, ethical policies, risk management and compliance.

Examples of ESG Adoption by Indian Companies

- Tata Group – Sustainability policies and carbon reduction initiatives.
- Infosys – Carbon-neutral operations and strong sustainability reporting.
- ITC Limited – Water-positive and carbon-positive initiatives.
- Mahindra Group – Commitment to carbon neutrality and sustainable mobility.

Findings and Analysis

The analysis of available literature, corporate sustainability reports, and regulatory frameworks indicates that ESG practices are gradually gaining momentum in India. The study identifies several important trends regarding ESG adoption, corporate reporting, investor behavior, and implementation challenges.

- **Growth of ESG Investments in India**

One of the most significant findings is the rapid growth of ESG-focused investments in the Indian financial market. Institutional investors, mutual funds, and international asset managers increasingly consider ESG factors while making investment decisions. ESG mutual funds and sustainable investment portfolios have witnessed significant inflows in recent years.Global investors view companies with strong ESG performance as less risky and more sustainable in the long term. These companies tend to have better risk management practices, improved stakeholder relationships, and greater resilience to environmental and social challenges. As a result, ESG has become an important criterion in portfolio selection and corporate valuation.In India, the number of ESG-focused investment funds has steadily increased, and several asset management companies have launched dedicated ESG schemes. This trend indicates growing awareness among investors regarding responsible and sustainable investment practices.

- **Increasing Corporate ESG Disclosure**

Another important finding is the increasing level of ESG disclosure among Indian companies. Regulatory initiatives such as the Business Responsibility and Sustainability Report (BRSR) have played a crucial role in improving corporate transparency. Listed companies are now required to disclose detailed information regarding environmental performance, social initiatives, and governance practices.These disclosures include data on carbon emissions, energy consumption, employee welfare policies, gender diversity, corporate governance practices, and stakeholder engagement activities. Such information enables investors, regulators, and other stakeholders to evaluate the sustainability performance of companies more effectively.Large corporations, particularly those listed on stock exchanges, have been more proactive in adopting ESG reporting standards. Many companies also publish separate sustainability reports to demonstrate their commitment to responsible business practices.

- **Integration of ESG into Corporate Strategy**

The study also finds that several Indian corporations have begun integrating ESG principles into their core business strategies rather than treating them as merely compliance requirements. Companies are increasingly adopting sustainable technologies, improving energy efficiency, and implementing environmentally friendly production processes.For example, many companies are investing in renewable energy sources such as solar and wind power to reduce carbon emissions. Others are focusing on waste management, water conservation, and sustainable supply chain management. On the social front, organizations are emphasizing employee well-being, workplace diversity, and community development initiatives.This shift from compliance-based ESG reporting to strategy-driven ESG integration reflects a growing recognition that sustainability can create long-term business value and competitive advantage.

- **Role of Regulatory Initiatives**

Regulatory initiatives have played a significant role in promoting ESG practices in India. Government policies and guidelines encourage companies to adopt responsible business practices and improve transparency in reporting.The introduction of the National Guidelines on Responsible Business Conduct and the BRSR framework has created a structured approach to ESG disclosure. These initiatives aim to align corporate behavior with sustainable development goals and global environmental commitments.Furthermore, mandatory Corporate Social Responsibility (CSR) provisions under the Companies Act, 2013 have strengthened the social dimension of ESG in India. CSR spending by Indian companies contributes significantly to community development initiatives such as education, healthcare, rural development, and environmental protection.

Challenges in ESG Implementation

Despite the growing adoption of ESG practices, the study identifies several challenges that hinder effective implementation in India.

- **Lack of Standardized ESG Metrics**

One of the primary challenges is the absence of universally accepted ESG measurement standards. Different organizations use different ESG frameworks and reporting standards, which makes it difficult to compare the sustainability performance of companies.

- **Data Reliability and Transparency Issues**

ESG data is often self-reported by companies, which raises concerns regarding accuracy and reliability. Without strong verification mechanisms, there is a risk that companies may present overly optimistic sustainability claims.

- **Greenwashing**

Greenwashing refers to the practice where companies exaggerate or misrepresent their environmental initiatives for reputational benefits. This practice can undermine the credibility of ESG reporting and mislead investors.

- **Limited Adoption by Small and Medium Enterprises**

While large corporations have made significant progress in ESG reporting, small and medium enterprises often lack the resources and expertise required for ESG implementation. Compliance costs and lack of awareness act as barriers for smaller organizations.

- **High Compliance and Reporting Costs**

Implementing ESG policies and preparing detailed sustainability reports requires financial resources, technological infrastructure, and skilled professionals. Many companies perceive ESG reporting as an additional regulatory burden.

Impact of ESG on Corporate Reputation and Performance

The analysis also suggests that companies adopting strong ESG practices tend to experience improved corporate reputation and stakeholder trust. Responsible business practices enhance brand value and strengthen relationships with investors, customers, and employees.

Furthermore, ESG adoption can contribute to better risk management by helping companies anticipate environmental risks, regulatory changes, and social expectations. This ultimately supports long-term financial performance and sustainable business growth.

Conclusion

Environmental, Social, and Governance (ESG) practices have emerged as an essential component of modern corporate management and sustainable economic development. The growing emphasis on sustainability, responsible investment, and corporate accountability has significantly increased the relevance of ESG frameworks across global markets. In India, ESG adoption has gained considerable momentum in recent years due to the combined influence of regulatory initiatives, increasing investor awareness, and rising expectations from stakeholders regarding ethical and sustainable business practices.The analysis presented in this study indicates that Indian companies are gradually integrating ESG principles into their business strategies and corporate governance structures. Regulatory frameworks such as the National Guidelines on Responsible Business Conduct (NGRBC) and the Business Responsibility and Sustainability Report (BRSR) introduced by the Securities and Exchange Board of India have played a crucial role in encouraging transparency and standardized disclosure of ESG-related information. These initiatives have helped improve the availability of sustainability data, enabling investors and other stakeholders to evaluate corporate performance beyond traditional financial metrics. The study also highlights that ESG considerations are increasingly influencing investment decisions in the Indian financial market. Institutional investors, asset management companies, and international funds are placing greater emphasis on companies with strong ESG performance. As a result, organizations are recognizing that sustainability is not merely a regulatory requirement but also a strategic factor that contributes to long-term competitiveness, risk management, and value creation. Several leading Indian corporations have demonstrated the potential benefits of ESG integration by adopting sustainable technologies, improving energy efficiency, enhancing employee welfare policies, and strengthening corporate governance structures. These initiatives not only contribute to environmental protection and social development but also enhance corporate reputation and stakeholder trust. Consequently, ESG adoption can create long-term advantages for companies in terms of improved operational efficiency, investor confidence, and market competitiveness.

Despite these positive developments, the study identifies several challenges that continue to affect the effective implementation of ESG practices in India. The lack of standardized ESG metrics, limited availability of reliable sustainability data, and the risk of greenwashing remain significant concerns. Additionally, smaller organizations often face difficulties in implementing ESG frameworks due to limited financial resources, technical expertise, and awareness. These challenges highlight the need for stronger regulatory oversight, improved reporting standards, and capacity-building initiatives to support wider ESG adoption across industries. To enhance the effectiveness of ESG practices in India, policymakers and regulatory authorities should focus on developing more robust reporting frameworks, encouraging third-party verification of ESG disclosures, and promoting awareness among businesses regarding the long-term benefits of sustainability practices. Furthermore, collaboration between government agencies, corporations, investors, and civil society organizations will be essential in building a transparent and credible ESG ecosystem. In conclusion, ESG practices represent a significant step toward achieving sustainable development and responsible corporate governance in India. As environmental challenges, social expectations, and governance requirements continue to evolve, ESG will play an increasingly important role in shaping the future of business operations and investment strategies. Companies that proactively integrate ESG principles into their organizational culture and strategic decision-making processes will be better positioned to achieve sustainable growth, strengthen stakeholder relationships, and contribute positively to society and the environment.

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