International Journal of Enhanced Research in Management & Computer Applications
ISSN: 2319-7471, Vol. 11 Issue 7, July, 2022, Impact Factor: 7.751

Impact of Mandatory Business Responsibility Report on the Disclosure Practices of select Indian Companies Listed in National Stock Exchange of India

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ABSTRACT

The paper reviews the impact of mandatory Business Responsibility Report on the Sustainability Reporting practices of the selected few companies. SEBI has mandated inclusion of Business Responsibility Report as a part of Annual Report for top 100 listed entities. The said reporting requirement is in line with National Voluntary Guidelines on Social, Environment and Economic Responsibilities of Businesses as notified by Ministry Of Corporate Affairs. This paper is trying to evaluate the current practices in sustainability reporting in Indian select top companies with the main objective to leverage power of information especially as Securities and Exchange Board of India (SEBI) in a path breaking decision has mandated that all listed companies must publish a Business Responsibility Report in light of the guidelines framed by Ministry of Corporate Affairs. It aims to study the pre mandate reporting practices from 2007-08 to 2011-12 and post mandate reporting practices from 2012-13 to 2018-19.

Keywords: Sustainability Report, NVG, BRR.

INTRODUCTION

Environmental matters associated with industrial activities have increased public concerns about both financial and on financial performance of firms leading to arising pressure for the disclosure and studies faced by an organization today. In today’s time we see that our climate is changing may be due to various factors like ecological imbalance, environment pollution and others which has given an impetus to sustainability in business. As a result many companies have started with sustainability reporting and disclosure practices. A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities.As investors demand for transparency and accountability all around the world, Sustainability Reporting helps organizations to be transparent by disclosing the environmental, social and governance goals (ESG) thereby communicating the impact caused and the measures taken by organizations.

The **Global Reporting Initiative (GRI**) is a pioneer in the field of sustainability. It is also the most commonly used sustainability reporting standards. GRI promotes the use of sustainability reporting by producing free sustainability reporting guidelines to enable companies to report on their economic, environmental, social and governance (ESG)performance and contribute to sustainable development. At the same time it enables an organisation to set sustainable goals and achieve them. Sustainability Reporting has received a great impetus in the last few years in India as SEBI has mandated the publication of Business Responsibility Reporting as a part of the company’s Annual Report.

Business Responsibility Report is a report mandated by Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, (SEBI) which is applicable to 500 listed entities by market capitalisation. Pursuant to notification of SEBI (Listing Obligations and Disclosure Requirements) Regulations, the annual report shall contain a business responsibility report describing the initiatives taken by thelisted entity from an environmental, social and governance perspective. Business Responsibility Report is a disclosure of adoption of responsible business practices (heavily influenced by GRI guidelines) by a listed company to all its stakeholders. This is important considering the fact these companies have accessed funds from the public, have an element of public interest involved and are obligated to make a disclosure on a regular basis. SEBI Regulations 2015 has extended the applicability of Business Responsibility Report to top 500 listed companies from 100 listed companies based on market capitalisation on 31st March every year. Very recently BRR has been replaced by Business Responsibility and Sustainability Reporting (BRSR) which acts as a bridge between financial results of a business with its ESG performance.

Research Objectives

To see whether Business Responsibility Report (BRR) has any impact on the disclosure practices of select companies listed in National Stock Exchange of India. Precisely the paper aims to study whether there is any change in the sustainability reporting practices of selected top companies before and after Business Responsibility Report was mandated by Securities and Exchange Board of India (SEBI).

REVIEW OF LITERATURE

According to Bashatweh and Jordan (2018) sustainable development means satisfying the present without compromising the future. Thomas and Vos (2012) stated that in business sustainable development means running the business properly without compromising the need of future stakeholders. Sustainability issues are reported as per GRI. In 2000 GRI published its first version , in 2006 GRI published version 3 guidelines , in 2010 they came out with version 4 guidelines. GRI continuously revisits and updates the guidelines as per the need of the hour. The Vision of sustainability reporting includes proper use of resources on which all life depends, and its mission includes taking decisions that give social, economic and environmental benefits. According to Hossain . D. A (2020) sustainability reporting not only concerns about the future but also improves the current performance of the organization. Bayoud et al. (2012) measured the level of Corporate Social Responsibility Disclosure (CSRD) by employee, community, consumer and environment disclosures and found that a high level of disclosure is strongly associated with company reputation for stakeholder groups. The results showed that most companies (60%) disclose all the four categories of CSRD whereas few companies (5%) do not present CSR information in their annual reports. Ameer and Othman (2012) measured 4 sustainability indices namely, items for environment, diversity, community and ethical standards. Their reports showed that firms with higher sustainability disclosure scores had significantly higher mean sales revenue growth, return on asset, and profit before tax over the test period from 2006-2010. The study suggested a bi-directional relationship between sustainability practices and financial performance. N. Burhan and Rahmanti (2012) examined 32 companies listed in Indonesian stock exchange during 2006-2009 using GRI and found that sustainability reporting influences company performances. Eccles et al. (2012) also found that high sustainability reporting companies significantly outperform their counterpart over the long term, both in terms of stock market and accounting performance. Sam and Robeco (2011) found that the source of a positive association between financial performance and CSR investments is more likely due to the signaling value of CSR disclosures than positive returns on those investments. Guindry and Patten (2010) found that companies with the highest quality reports exhibited significantly more positive market reactions than companies issuing lower quality reports. Ngwakwe (2009) found that increased investment in sustainability indicators led to an increase in ROA; reduction in amount spent on fines, penalties and compensation; improved relation with stakeholders. It is also found that most of the research about sustainability reporting considers the context of developed and developing countries. But very few or no studies focussed on the importance of Business Responsibility Reporting on the sustainability discloser practices on top companies listed in NSE.

RESEARCH METHODOLOGY

Sample Design

For this purpose all the listed companies of National Stock Exchange (NSE) Nifty 50 as on 31st March 2018, was selected provided the company has been still operating and not defunct on the terminal date of our study.With respect to the selected companies, data relating to the period 2007-08 to 2018-19 have been taken to make the study meaningful.

In order to assess the emerging trends in corporate sustainability disclosure practices in published reports of listed companies in leading stock exchange of India, the annual and/or sustainability reports have been thoroughly scanned with respect to the General Standard Disclosure and Specific Standard Disclosure that is GRI G4 guidelines indicators of both mandatory and voluntary items.

The **National Stock Exchange of India Limited** (**NSE**) is the one of the most prominentstock exchange of India, located in Mumbai. Full form of NIFTY is National Stock Exchange Fifty. The **NIFTY 50** index is benchmark broad based stock market indexfor the Indian equity market. It represents the weighted average of 50 Indian company stocks in 12 sectors.

Table **1:** shows the name and sector of the select companies in the leading stock exchanges namely, National Stock Exchange (NIFTY 50).

Table 1: List of NSE Sensex Companies on 31.03.2017

S. NO	COMPANY NAME	SECTOR	S. NO	COMPANY NAME	SECTOR
1.	TCS	IT	26.	BHARTI AIRTEL	TELECOM
2.	RELIANCE	REFINERIES	27.	ASIAN PAINTS	PAINTS
3.	HDFC (BANK)	BANK	28.	POWER GRID CORPORATION OF INDIA	POWER
4.	ITC	TOBACCO	29.	ULTRATECH	CONSTRUCTION
5.	HUL	FMCG	30.	MAHINDRA & MAHINDRA	AUTOMOBILE
6.	HDFC	HOUSING FINANCE	31.	INDUSIND	BANK
7.	INFOSYS	IT	32.	BAJAJ FINSERV	FINANCE
8.	SBI	BANK	33.	JSW STEEL	IRON & STEEL
9.	KOTAK MAHINDRA	BANK	34.	GAIL	INDUSTRIAL GAS & FUEL
10.	ICICI BANK	BANK	35.	VEDANTA LTD	METAL
11.	MARUTI SUZUKI	AUTOMOBILE	36.	BAJAJ AUTO	AUTOMOBILE
12.	ONGC	OIL	37.	TITAN	DIAMOND & JEWELLERY
13.	COAL INDIA	MINING & MINERAL	38.	TATA STEEL	IRON & STEEL
14.	L & T	CONSTRUCTION	39.	TECH MAHINDRA	IT
15.	WIPRO	IT	40.	ADANI PORTS	PORT
16.	AXIS BANK	BANK	41.	BPCL	REFINERIES
17.	BAJAJ FINANCE	FINANCE	42.	EICHER MOTORS	AUTOMOBILE
18.	IOCL	REFINERIES	43.	HERO MOTOCORP	AUTOMOBILE
19.	SUN PHARMA	PHARMACEUTICAL	44.	GRASIM	DIVERSIFIED
20.	NTPC	POWER GENERATION	45.	HINDALCO	METAL
21.	HCL TECH	IT	46.	BHARTI INFRATEL	TELECOMM
22.	TATA MOTORS	AUTOMOBILE	47.	CIPLA	PHARMACEUTICAL
23.	ZEE ENTERTAINMENT	TV BROADCASTING	48.	YES BANK	BANK
24.	DR. REDDY’S LAB	PHARMACEUTICAL	49.	HPCL	REFINERIES
25.	UPL	PESTICIDES & AGROCHEMICAL	50.	INDIABULLS	HOUSING FINANCE

[HDFC Bank and HDFC; BAJAJ Finance and BAJAJ FINSERV; BHARTI Airtel and BHARTI INFRATEL provides one consolidated report as a parent company and VEDANTA LTD did not have all sustainability and/or annual reports from 2007-08 till the current time hence has been omitted from the analysis.]

Data Sources

The study is empirical in nature. Empirical analysis has been done on the basis of secondary data collected mainly from official websites of the select listed companies.

Tools Used

The proposed study humbly seeks to make a comparative analysis of Sustainability Reporting practices before and after Business Responsibility Report was mandated by SEBI. For the purpose T-test has been done. T-test or Mean comparison test is generally used to compare the means of two separate sets of inputs. It determines whether there is a significant difference between the means of two group.

Analysis & Findings

This section deals with the impact of Business Responsibility Report on the disclosure practices of select companies listed in National Stock Exchange of India. The rationale behind this test is that BRR has been made mandatory by SEBI for top 100 listed entities based on market capitalisation at BSE and NSE as on March 31, 2012.

Therefore to see whether BRR has any impact on the disclosure practices the companies have been segregated into two time span,

- Prior to BRR being mandated i.e. 2007-08 to 2011-12
- After BRR being mandated i.e. 2012-13 to 2018-19.

Two-sample t-test with unequal variances:
Paired Sample T-Test:
T-test or Mean comparison test is generally used to compare the means of two separate sets of inputs. Two separate sets of variables in our analysis are–

AVG1 = mean disclosure score of the firms during the time period 2007-08 to 2011-12
AVG2 = mean disclosure score of the firms during the time period 2012-13 to 2018-19

Null hypothesis assumes that there is no significant difference between the means of two separate sets of inputs, whereas, alternative hypothesis assumes that there exists significant difference between the two sets of inputs. Further, in two sample T-test the comparison between the means can be tested using upper-tailed or lower-tailed hypotheses.

H0: the difference between AVG1 & AVG2 is 0.
Ha: the difference between AVG1 & AVG2 is not equal to zero. (two-tailed)

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Average 1	56.270	46	37.8825	5.5855
	Average 2	90.30	46	36.631	5.401

Paired Samples Test

		Paired Differences							
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)
Pair 1	Average 1 - Average 2	-34.03	26.62	3.93	-41.9345	-26.1227	-8.669	45	.000

A two-sample T-test was run on mean disclosure scores of 46 Indian firms to check whether any significant difference in disclosure scores exists in the two time time-periods considered under the study (i.e. 2007-08 to 2011-12 and 2012-13 to 2018-19). The result rejects null hypothesis (H_0) and shows that there is significant difference between two means. Further the difference between Average 1 and Average 2 is negative indicating that the difference between two means is significantly negative. This implies that AVG2 or the mean score of the firms during the time period 2012-13 to 2018-19 is significantly higher than AVG1 or the mean score of the firms during the time period 2007-08 to 2011-12. This further indicates that other factors remaining constant BRR plays an important role in the disclosure practices of companies i.e. it has shown an impact in the disclosure practices of the companies. Our result clearly indicates that there is significant differences between the two sets of inputs as the mean score is significantly higher in the time period 2012-13 to 2018-19 than 2007-08 to 2011-12 showing better disclosure pattern after BRR was mandated by SEBI.

The study shows that disclosures made by the companies after the mandate given by SEBI are much higher than before. Thus it can be concluded from the above test results that the mandate made by SEBI acted as a positive catalyst and showed better compliance and disclosure of Sustainability Reports by the selected few companies.

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