Business Responsibility and Sustainability Reporting (BRSR) – An Exploratory Study

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Abstract

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 SEBI. These reporting criteria which were to be followed by the Top - 1000 publicly listed companies, were termed as BRSR – "Business Responsibility and Sustainability Reporting".

In this paper, the authors present discussions on the background and introduction of BRSR, the parameters of evolution of sustainability reporting from Business Responsibility Reporting (BRR) to BRSR, as well as the enhancements brought in by BRSR. The authors conducted an exploratory study that provides a comprehensive description of BRSR in India along with a critical overview of the various modifications from BRR to BRSR. We examined information disclosed in reports of the Committee on Business Responsibility Reporting, Sustainability Reporting Standards Board (The Institute of Chartered Accountants of India based).

In their pursuit to be ethically, socially and environmentally responsible, the aim of the Indian companies is to reach higher disclosure levels with the BRSR implementation. BRSR seems comprehensive, globally relevant and is based on specific quantifiable metrics. This should help tell the holistic ESG story of each reporting company. While the 'proof of the pudding is in the eating', the Indian regulators are taking strong strides toward sustainability.

Keywords
Sustainability Reporting, Sustainable Disclosure, ESG Reporting, Business Responsibility and Sustainability Reporting (BRSR).

Introduction
Sustainable Development is the development that enables the current generation to meet the current needs without hampering the ability of future generations to meet their needs in the future.

The term "Sustainable Development" first appeared in "World Conservation Strategy" which was published by the "International Union for the Conservation of Nature" (IUCN), in 1980. Sustainable Development was termed as a global priority. Subsequently, "Our Common Future" (generally also known by the name 'Brundtland Report') was released by the United Nations World Commission on Environment and Development in 1987, which gave the popular definition of "Sustainable Development".

Sustainability Report is generally an annual report published by public listed companies, in which they share their corporate social responsibility (CSR) goals and the steps taken to accomplish them. Transparency is acknowledged as an essential element of corporate citizenship and sustainability reporting is rapidly turning out to be a favored tool for communications related to corporate citizenship.

During the 1970s and 1980s, the companies were focused on reporting information related to society and environment, through the corporate social disclosure. The same pattern continued in the next decade also. It is very evident from the historical events, like the Oil spill in Alaska (Patten 1992) and the Gas Leak in India, that there is a huge impact on the environment due to the activities of a firm. In the beginning of the 1990s, companies were under a lot of pressure to be more open about the social and environmental impacts of their business activities. The pressure came from a variety of different stakeholders, like:

- The customers who were worried about the ethical consequences that their purchases would have.
- The shareholders who based their investment decisions on social and environmental risks
- The community groups and civil society organizations who wanted to know what value is being added by the companies to the society.
- The employees who needed reassurance about their employer being a good corporate citizen.

Investors and other stakeholders' decisions are influenced by the quality of information presented in annual reports. Due to their increased awareness, investors tend to be inclined towards those businesses which do better sustainability reporting when making investing decisions (Cormier et al. 2009). Adopting responsible business practices is as important as the financial and operational performance of any business. In some countries, it is mandatory to report and disclose the sustainability information whereas in other countries, it is voluntary. If sustainability reporting is made mandatory then it will ensure accountability on the firm's sustainable performance because, in certain countries there are separate regulations and standards for sustainability reporting practices.
This research paper presents discussions on the background of BRSR, the parameters of evolution of sustainability reporting from BRR to BRSR, as well as the enhancements expected by BRSR.

When the Ministry of Corporate Affairs (MCA) released the National Voluntary Guidelines (NVG), there was no India-specific corporate framework, either voluntary or compulsory, relating to sustainable development till 2011.

- NVG is a set of guidelines for Indian business enterprises to operate considering their responsibilities related to the economy, environment and society.
- It is based on the triple bottom line (TBL) principle of sustainability, and is appropriate for organizations of every size, sector and management, and is specific to the Indian context.
- It had nine elements, viz., human right, ethics, product life cycle sustainability, accountability and transparency, well-being of the employees, engagement of Stakeholder, Human rights, Environment, Policy advocacy, Inclusive growth and equitable development and value to customers.
- There are guidelines in NVG to implement the use of its four concepts of leadership, integration, engagement and reporting.
- It also had supplementary annexures that laid out the business case for taking up the guidelines, the related regulatory frameworks and legislation.
- It had a separate section for the Micro, Small, and Medium Enterprises (MSMEs), about the methods of application.
- The organizations were directed by The Securities and Exchange Board of India (SEBI) to release an annual report on their Business Responsibility (BR) in line with the NVGs.

After the National Voluntary Guidelines (NVGs) were released by the Ministry of Corporate Affairs in 2011, indicating the Social, Environmental and Economic Responsibilities of Business, the SEBI made it compulsory for the top listed companies to disclose the non-financial data pertaining to environmental and social responsibilities through Business Responsibility Report (BRR) that was in tune with the principles of the NVGs.
The BRR was introduced in August 2012. It was SEBI's reporting requirement, which was in tune with the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business.

BRR guidelines on sustainability information can be classified into five (5) categories as shown in below Figure 1

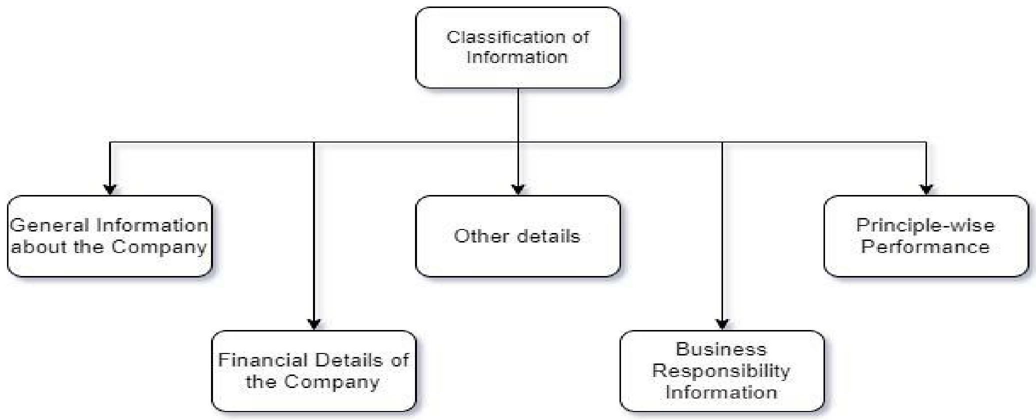

Figure 1. Business responsibility report classification

During the board meeting on March 25th 2021, new criteria were introduced by SEBI for sustainability reporting by listed companies. It was named BRSR - the Business Responsibility and Sustainability Report. The BRSR was to take over the place of the current BRR - Business Responsibility Report.
The Top-1000 listed entities were to now switch over to BRSR. It was made voluntary for the Financial Year (FY 2021-22) and compulsory starting financial year 2022-23.

A quick overview on how BRSR was introduced:

- BRR came into existence in 2012. It was introduced by SEBI as a non-financial reporting. The Top-100 listed companies were to make this a part of their annual reports.
- In 2016, the Top-500 listed companies were required to do the BRR.
- In the FY 2019-20, the Top-1000 listed companies had to report in the form of BRR ● The basis of the BRR format is based on the guidelines of NVGs issued by MCA.
- In March 2019, the NGRBCs – "National Guidelines on Responsible Business Conduct" – were rewritten and introduced in place of NVGs, while keeping in mind the global developments and domestic changes ● MCA formed a committee and aligned the current BRR formats to match with that of NGRBCs.
- On 8 May 2020, the scope of the reporting requirement was detailed by The Committee Report, which gave out an updated format. The Committee suggested that the report should be called BRSR – "Business Responsibility and Sustainability Report" instead of BRR.
- On 18th August 2020, SEBI sought comments from the public on the format of BRSR. The deadline for the public feedback was set to 18th September 2020.
- The BRSR was applicable to Top-1000 listed entities (by market capitalization), by SEBI, on 25th March 2021. It was made voluntary for the Financial Year (FY 2021-22) and compulsory from FY 2022-23.

Chronology

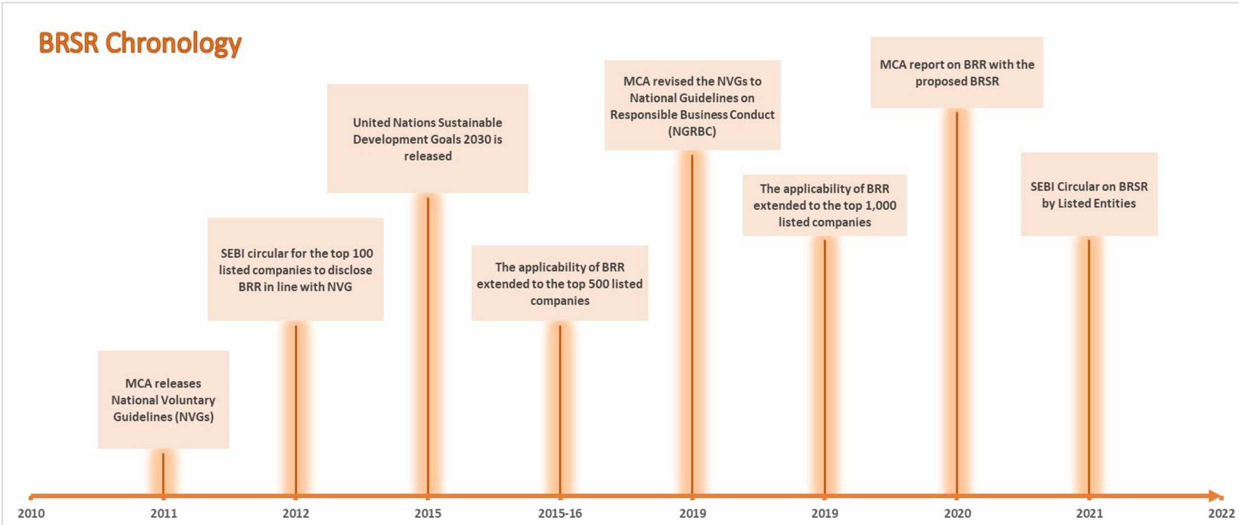

Figure 2. Chronology of BRSR (Authors' own Concept)

Objectives

This research is a Qualitative Exploratory Research on the Introduction, Evolution and Enhancements of BRSR and how BRSR will impact the Disclosures and Reporting in India. Since the concept of BRSR is very recent and new, the authors chose to base the research study on an exploratory study.

Theoretical framework

There is some level of disclosure provided by most companies in their annual reports, that exceeds regulatory requirements, even though the levels of disclosure vary (Patel and Dallas 2002). In this research study, we utilize stakeholder theory and Legitimacy Theory. Stakeholder Theory relies upon the notion of stakeholder's involvement with the organization. In what way an organization manages its relationship with the stakeholder is based on the importance given to the stakeholder (Gray et al. 1996). This in turn, is based on the significance or the power of the stakeholder (Ullmann 1985; Roberts 1992). Freeman and Reed (1983) reported the significant role of various stakeholders and their influence on the firm and defined stakeholders as "any group of individuals who can affect or is affected by the organization's objective" (Freeman and Reed 1983). Engagement with stakeholders, has time and again proved that it gives the firms a competitive advantage. They also facilitate the process of creating value for stakeholders as well as the society (Freeman et al. 2017; Sulkowski et al. 2018). Stakeholder engagement is nothing but the ability of the firm to establish good relationships with a wide group of stakeholders (Rueda-Manzanares et al. 2008; Zwikael et al. 2012). If the disclosure of various initiatives that are going to be undertaken by the company under its CSR initiatives, is not transparent, it affects the trust between companies and their stakeholders. Through the stakeholder theory of CSR, such issues can be alleviated (Harrison et al. 2019).

Legitimacy Theory denotes a contract between society and companies. Here, in order to beget social approval, the companies adopt socially oriented behaviors. (Guthrie Parker 1989). Many studies on social and environmental reporting have taken the Legitimacy Theory to be their base in the last two decades. This has helped them to understand as well as explain the disclosure practices put into effect by the firms (Guthrie Parker 1989; Patten 1992; Adams et al.1998; Tsang 1998; Campbell 2000; Wilmshurst Frost 2000; Deegan et al. 2002; Milne e Patten 2002; Newson Deegan 2002; O'Donovan 2002; O'Dwyer 2002). It is argued by Branco and Rodrigues that there are a couple of reasons as to why organizations get involved in CSR activities and disclosure. It is because they assume that there is an increase in financial return due to purposeful relations with their stakeholders. It is also because they are adjusting and adapting to stakeholders' expectations. These comprise a legitimacy instrument, that shows their compliance to such norms and expectations.

Comparison of BRR and BRSR Disclosures

Exploring the detailed format between the current BRR and the newly introduced BRSR, the authors have explained the components in detail. The most rudimentary and anticipated elements of sustainability and responsibility reporting are highlighted by the BRSR framework. This is different from the BRR format prescribed by SEBI. The formats of the BRSR have been articulated in such a way that they serve as the sole basis of sustainability information reporting. The two formats differ across the components.

A comparison of components of the BRR format and the BRSR format is shown in the below Figure 3.

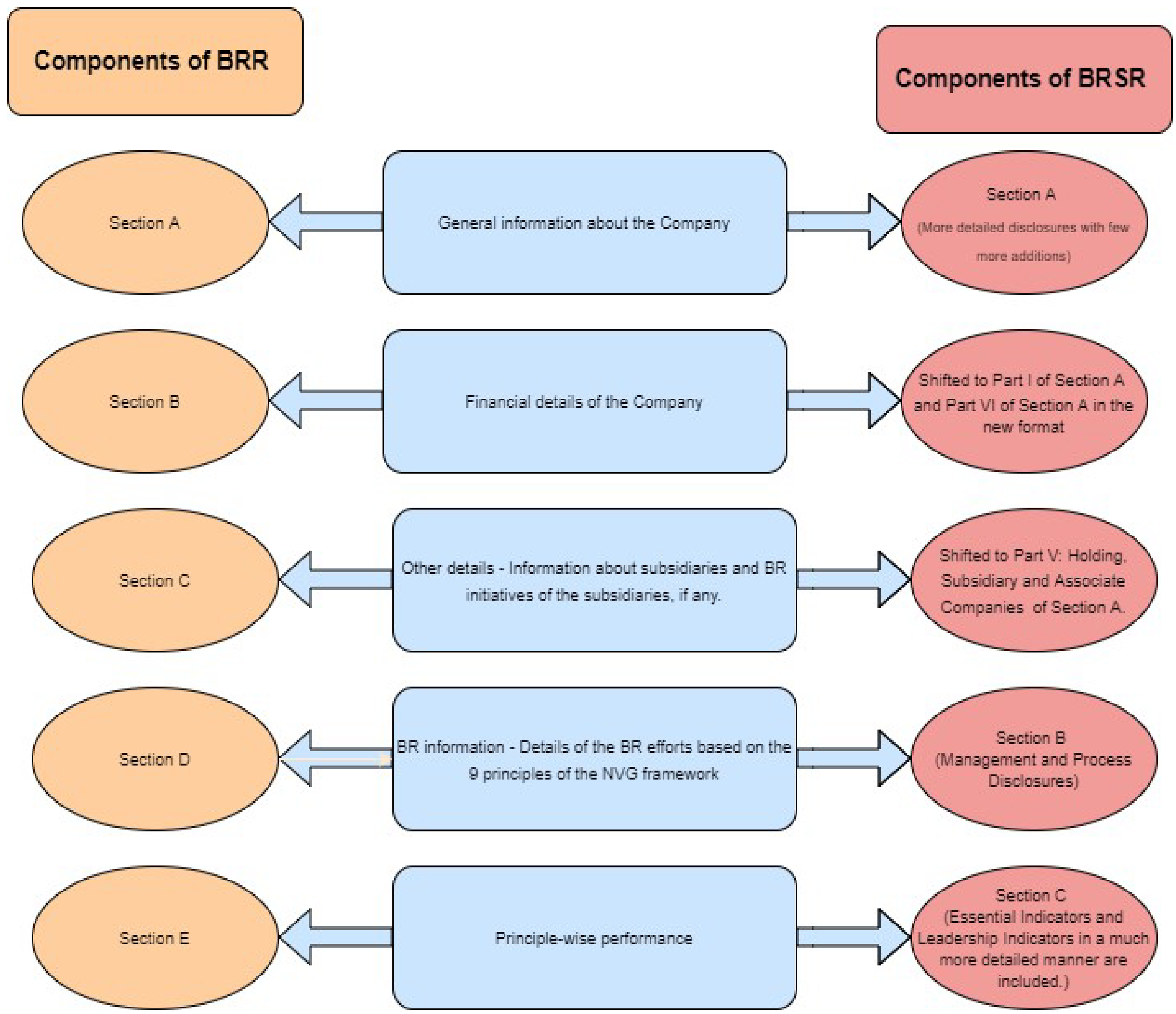

Figure 3. BRR Vs. BRSR A Comparison (Authors' own Concept)

Evolution from NVG to BRR and from BRR to BRSR

The authors have developed a pictorial evolution of various Sustainability Reporting since its inception in 2011, as shown in Figure 4 below. The authors, explored in detail the components across various aspects and how SEBI in India has evolved from NVG to the newly introduced BRSR.

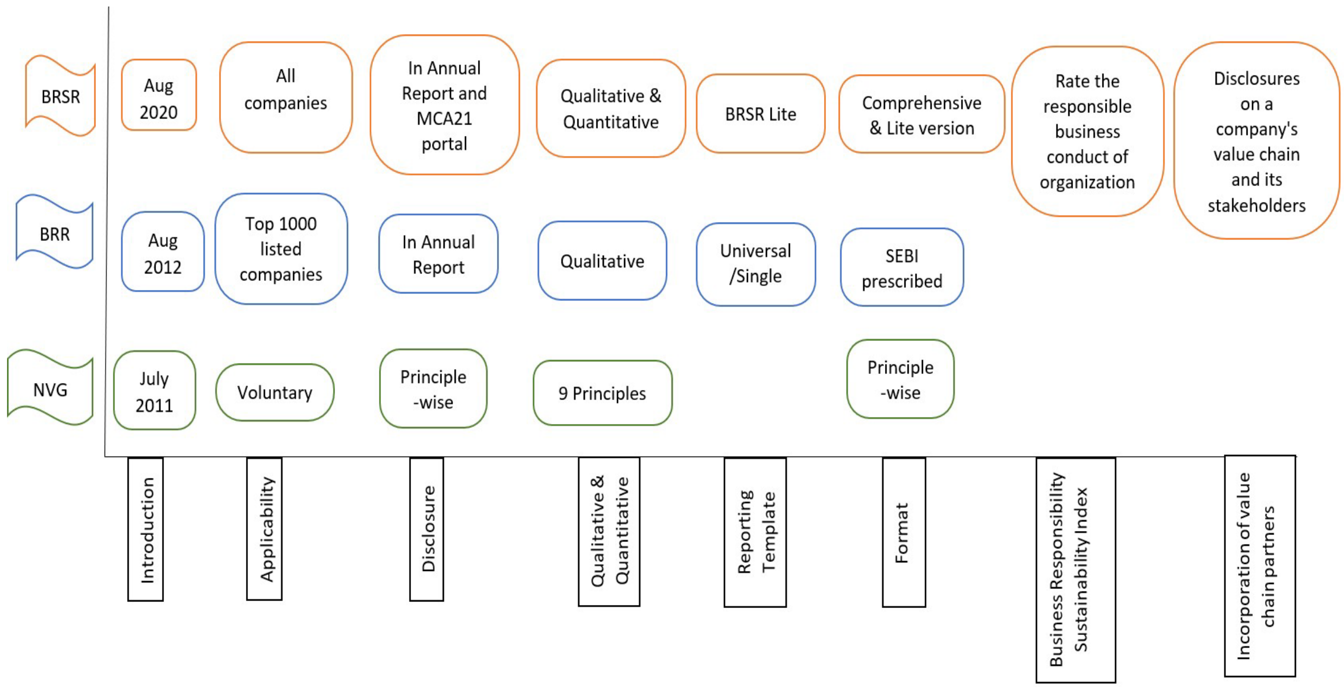

Figure 4. Evolution-NVG-BRR-BRSR (Authors' own Concept)

Key Observations

- The scope of BRSR has been expanded. The BRSR is applicable to all companies.
- BRSR incorporates several Key Performance Indicators (KPI)s of the international standards, so that they can meet the global ESG reporting standards.
- As per the Committee Report, the MCA-21 portal and BRSR should be integrated while the companies are reporting under the Companies Act, 2013. The BRSR is an annual report. It will also be a disclosure on the MCA-21 portal in XBRL format.
- It grants privilege to the leaders to classify their achievements in the right proportion because it is in Qualitative as well as Quantitative mode.
- The disclosures under the principle-wise indicators are more quantitative. This is due to the fact that the questions are specific as well as simple. This provides a complete and a granular-level information.
- The companies that are unlisted and below a certain limit (the limit is not currently defined by SEBI), are allowed, by the Committee Report, to adopt a lite version of the format, on a voluntary basis. This makes it easier for them to start reporting on sustainability-related issues.
- Companies that are large and those that are already reporting as per the regulations would use the comprehensive format. The Lite version could be used by those companies which have not done any sort of sustainability reporting up until now. The BRSR would be their very first attempt at developing a sustainability report.
- "A company cannot grow in a silo" which comes into force with the inclusion of "Value Chain" referred to as one's responsibility to execute ESG Parameters. The suppliers must

Data Collection

The authors used the various Government of India (GOI) Websites, online resources like Google and other sources of information for collecting articles, research papers and other material concerning BRSR. Since this is a recent concept introduced by GOI, most of the data collected is through government website sources and very few research articles.

Advantages of BRSR

Figure 5. BRSR- Advantages (Authors' own Concept)

Conclusion

In order to ensure that the businesses recognize their responsibility toward the environment and the society, nonfinancial disclosures are gaining prominence alongside annual financial disclosures. With more importance being given to sustainability disclosures, such non-financial information is used by credit agencies, banks, etc., along with financial information while assessing the credit-worthiness of the companies.

It will take a while to understand whether the BRSR will be a reliable tool that would serve as the main criteria for assessment of businesses and whether it will meet the expectations of the regulators.

Features such as BRSR Lite, the MCA21 portal and Business Responsibility-Sustainability Index mentioned in its consultation paper and Committee Report are not discussed by the SEBI BRSR Circular. The transition from BRR to BRSR might become simpler if these key features are included. It will help the key stakeholders in ranking the companies based on their ESG performance and disclosures.

SEBI has given the current fiscal year as a respite for the companies that have been doing the BRR thus far. It is up to the companies to either continue with the existing BRR, so that they remain compliant or to adopt the new BRSR a year before it is made compulsory. It would be useful to include a review of the key requisites of the BRSR, so that the transition from BRR to BRSR is smooth and well-planned.

In countries like China, the US, UK and European Union, there are about 400 sustainability reporting instruments available. They are taking the right steps to make even the non-financial disclosures compulsory. In the same way, the businesses in India will be at better levels of disclosure due to the implementation of the BRSR. They will thus fulfil their social, environmental and ethical responsibility.

Limitation

The research is not exhaustive and is quite limited to the information based on secondary data from Research Journals, Articles, Blogs and Newspapers. Since BRSR is a recent concept, even the secondary data is very limited to newspapers, government websites and blogs. The literature review is also limited and not exhaustive. The authors used an exploratory research and hence there is no qualitative and/or quantitative research which was collected or analyzed.

Future Research

The research study should be expanded with an exhaustive literature review. Additionally, future research could be based on secondary and primary data collection through qualitative and quantitative methods and analysis for the Top1000 listed companies in India.

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