

MOTIVATION TO PERFORM SUSTAINABILITY ACTIVITIES AND PROVIDE DISCLOSURES

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Abstract

With purpose of the firm being widened from shareholder wealth enhancement to stakeholder value maximization, respective firm commitment to sustainability has become significant over time. The firms are expected to comply with multiple regulations and disclosures requirements stipulated by investors and governments pertaining to sustainability encompassing Environment, Social & Governance (ESG) or Corporate Social Responsibility (CSR). While these disclosures play a crucial role in informing prosocial activities done by the firm to all stakeholders, thereby reducing information asymmetry among them; the motivations and outcomes for the sustainability activities and disclosures are unclear. Using the survey methodology, this study documents the insights from senior executives that sustainability activities facilitate long term business potential and that firms are motivated to provide sustainability disclosures for stakeholder engagement, to gain competitive advantage, and to improve their financial & operating performance. The outcome of these measures includes improved media coverage, reputation, employee retention and creation of new business opportunities. The study undertakes cross sectional analysis to document that size of the firm, its governance approach, ownership and industry type influences the sustainability activities and the disclosures. This research maps the findings with academic research and proposes a framework to understand motivation to perform sustainability activities and provide disclosures. The study also observes a gap in the level of awareness on sustainability measurement tools and the need for more regulatory measures to meet the sustainability goals.

Introduction

“ A company is more than an economic unit generating wealth. It fulfils human and societal aspirations as part of the broader social system. Performance must be measured not only on the return to shareholders, but also on how it achieves its environment, social and good governance objectives”.

By : Klaus Schwab

The seventeen Sustainable Development Goals (SDGs) of United Nations are considered as solution for global socio-economic & ecological problems like poverty, climate change and health etc and have received significant attention from investors, governments and organizations. The SDGs and the Conference of Parties Agreement at Paris (COP 2015) accelerated the overall approach of driving countries and then firms to adopt sustainability. 183 global CEOs statement at Business Roundtable meeting in 2019 and release of ‘Davos Manifesto: The universal purpose of a company in the fourth industrial revolution’ by World Economic Forum in 2019 (Schwab, 2019) has emphasized that the return to shareholders is not the sole performance measure of a company, but also on how a company achieves its sustainable objectives to maximize stakeholder (encompassing shareholders, employees, business partners and community) value. Covid 19 pandemic further showcased the frailty of businesses and accentuated the need for building resilient organizations. Shift of purpose of firm from profit maximization as per shareholder theory (Friedman M. , 1970) to wealth maximization of society as per stakeholder theory (Freeman, 1984) remains an active point of discussion.

Milton Friedman’s famous dictum that “the business of business is business” which reflects the view that corporate executives’ responsibility is solely with their shareholders, as long as they honour legal restrictions and contractual obligations to other stakeholders is no longer relevant. In the current times, firms have ethical responsibilities, together with the purely voluntary,

discretionary responsibilities that are neither formalized nor applicable to all firms and industries and they are changing dynamically over time.

Due to the increased interest in the pro-social activities and behavior of the firms, there has been an exponential growth in number of companies measuring and reporting Environmental (i.e., carbon emissions, water consumption, waste disposal etc), Social (employee parity & diversity, product and customer related etc) and Governance (board diversity, corruption etc) data (Amelzadeh & Serafeim, 2018), collectively called Sustainability report or ESG report or Corporate Social Responsibility (CSR) reports. Although the scholarly interest in corporate sustainability and social responsibility was initially introduced in the early 1980s, it gained momentum in the 2000s (Bansal & Song, 2017). The terms and acronyms ESG (environmental, social and governance), CSR (corporate social responsibility) and Sustainability, are sometimes used interchangeably. In this paper, I have focussed on the approach of ESG & CSR with focus on sustainability approach in the Indian landscape and also considered these terms interchangeably.

United Nations in its report (Better Business, Better World, 2017) predicts that the pursuit of sustainable development goals unleashes opportunities for business organizations to generate US\$12 trillion in savings and revenues, and 380 million new jobs across four sectors of energy, infrastructure, food, and health by 2030. While many national governments and stock exchanges have adopted laws and regulations that mandate sustainability reporting by companies to have effective communication with all sets of stakeholders; however, much of this information is still considered voluntary. This submission of non-financial information has been also mandated by many investors to analyse and incorporate this information in their investment decisions. A lot of heterogeneity within these reports is observed, which makes investors not have comparable and verifiable information. On one side there are ESG/CSR reports which are genuinely altruistic in nature and barely meet the reporting requirements, and on the other side, there are reports which go above and beyond to provide information for diverse stakeholders and externalities.

ESG/CSR reports differ significantly in terms of their length, magnitude, and quality. There are several reasons providing an explanation for this disparity and complexity of ESG/CSR reporting versus traditional financial reporting. Some of the reasons include the diversity in the audience of the ESG/CSR reports versus the financial reports. The ESG/CSR reports are more directed toward several stakeholders and a wide range of outcomes including environmental, and social topics (Moroney & Trotman, 2016). The ESG/CSR activities performed are difficult to quantify making them intangible. Further, there is no single standards for sustainability reporting and Global Reporting Initiatives, IFRS foundation etc frameworks were initiated to attain comparability across these reports (Christensen, Hail, & Leuz, 2021).

While the need for sustainability and disclosure requirements have been well articulated from investors perspectives, there is limited research available from a firm perspective to understand why and how the firms are practising sustainability. The adoption of sustainability by firms is difficult for outsiders to observe. While disclosure regarding sustainability activities have become more prevalent in the past decade, such disclosures only tell part of the story about firm behaviour and very little about the underlying preferences and incentives of the managers making business & investment decisions (Giambona, Graham, Harvey, & Bodnar, 2018). The survey offers one method of understanding both the beliefs and practices of the manager. In this study, using a survey mechanism built on a comprehensive literature review, the attempt is to gain firms' insights into motivations for sustainability activities and the ESG/CSR disclosures. The study primarily addresses the research questions: What are the motivations for the firms to perform sustainability activities and to disclose them? During this research, I also explore on its linkage with academic theories and how are these sustainable activities and disclosures useful? Using the survey methodology, this study documents the insights from 100 Indian senior executives that sustainability activities facilitate long term business potential, and firms are motivated to provide sustainability disclosures for stakeholder engagement, to gain competitive advantage, and to

improve their financial & operating performance. The outcome of these measures includes improved media coverage, reputation, employee retention and creation of new business opportunities. The study undertakes cross sectional analysis to document that size of the firm, its governance approach, ownership and industry type influences the sustainability activities and the disclosures. This research maps the findings with academic research and proposes a framework to understand motivation to perform sustainability activities and provide disclosures. The study observes a gap in the level of awareness on sustainability measurement tools and the need for more regulatory measures to meet the sustainability goals.

Survey-based analysis complements the empirical form of existing research done on sustainability considering secondary data from public sources. The survey respondents provide a first-hand inputs from the firm on how they are viewing the changing landscape on sustainability with firms being entrusted with new regulations and also coerced by institutional investors to adopt sustainability.

However, the caution needs to be exercised in interpreting the results as surveys may not measure actions but may instead capture beliefs (Graham, Harvey, & Puri, 2015). Some of the survey questions may be misunderstood or executives might respond on what sounds good to say, rather than say their true beliefs. To alleviate some of these concerns, I had done multiple feedback sessions on the questionnaire with multiple senior industry leaders and academicians both with respect to content and survey flow/design etc in an attempt to minimize ambiguity in the questions.

Even with these concerns, my contribution lies in providing practical insights on motive for performing sustainability activities and providing disclosures. The survey approach offers a balance between large sample analyses and clinical studies (Graham & Harvey, 2001). My survey analysis is based on a sample of hundred companies across a broad cross-section of industries, age, size, ownership etc, wherein I have covered specific and qualitative questions. As the academic

literature is non-conclusive with respect to sustainability motives, beliefs, framework adoption, this potentially indicates there are number of insights which rely on unobservable and managerial intent and need to be obtained via seeking answers to specific questions. The study also showcases (below) where academic research is consistent with real-world sustainability practices and where they appear to diverge.

- Firms are motivated to give ESG/CSR disclosures for stakeholder engagement, competitive positioning, and to improve their financial performance - (consistent).
- Outcomes of ESG/CSR disclosures: improved media coverage, reputation, employee retention, and creation of new business opportunities - (consistent).
- Firms perceive ESG/CSR as an ethical responsibility and consider it for decision making - (consistent).
- Firms are willing to contribute more than required mandatory spending - (inconsistent).
- Firms prefer to control the CSR spent and donates the same to a trust, or a company set up by the firm or group entity (consistent).
- While disclosures have increased the cost of doing business (consistent) and tools to measure ESG/CSR activity needs improvement (consistent); they provide a signal on management quality (consistent).
- ESG/CSR activities have led to creation of new business activities - (consistent).
- The size of the firm, its governance approach and ownership type influence the sustainability activities and the disclosures - (consistent).
- Regulations on mandatory disclosures and CSR spent has made the firm more socially responsible - (consistent).

Towards the end, I propose a framework showcasing that effective sustainable practices of the firm are influenced by its underlying motivation, mechanism adopted, and disclosures provided.

This study is potentially the first survey based academic research in India to delve into the theme of sustainability motivation & disclosures and provides first hand insights from practising senior professionals to corroborate aspects of non-conclusive academic literature; thereby extending the existing academic literature. The observations of the paper also raise possible directions for future research. What tools should be developed to effectively measure the impact of sustainability activities so as to enhance convergence of activities & disclosures? A uniformly observed benefit of these activities can enhance sustainability awareness across firms, thereby driving wider acceptance. This is interlinked with the observed need for more regulations required to achieve India sustainability goals.

This paper is segmented in the following sections. Section I reviews the academic literature on sustainability and identifies the academic literature gap. The developments on sustainability perspective & regulations are provided in Section II (Global Perspective) and Section III (Indian Perspective). Section IV describes the survey methodology providing insights on survey design and data summary. This is followed by the Section V showcasing the Sustainability Framework, developed by integrating the academic literature and survey observations and providing insights into the motivations of perform sustainability activities and provide disclosures. Some discussion points and concluding remarks are offered in Section VI. The free text comments received from the survey respondents are provided in Appendix A, while the survey questionnaire is provided in Appendix B.

Section 1 - Academic Literature Review

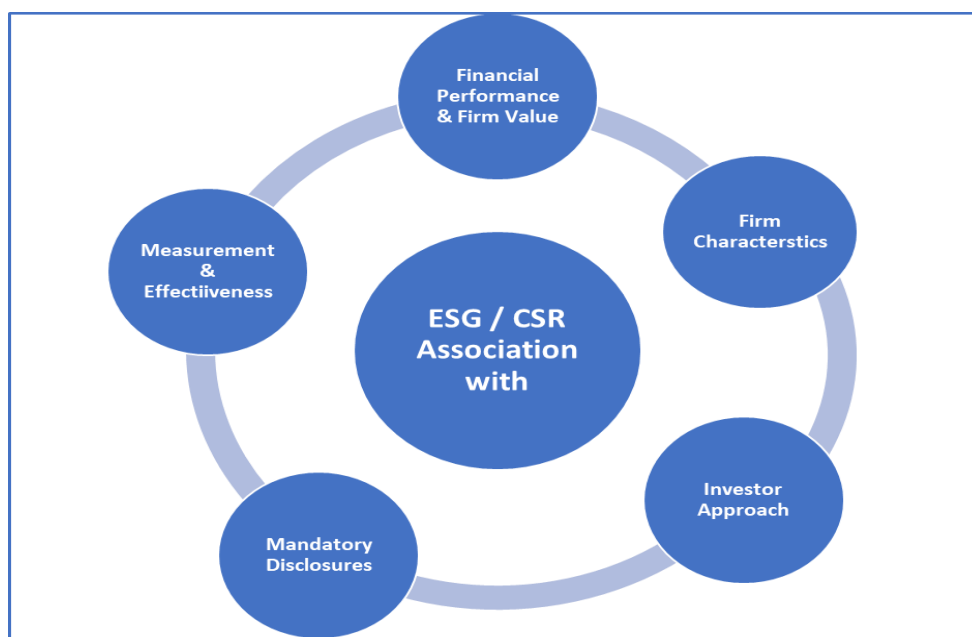
With respect to the need for corporate disclosures providing progress on the business strategy that incorporates the social, environmental, governance, cultural and economic dimensions of doing business i.e. sustainability; terminology of ESG and CSR have risen to prominence in management practice, education and research. As per literature, term sustainability is also associated with other terms like socially responsible investments e.g. (Sparkes & Cowton, 2004), (Friedman & Miles, 2001); Impact Investing, e.g. (Barber, Morse, & Yasuda, 2021); Ethical Investments e.g. (Michelson, Wailes, Van Der Laan, & Frost, 2004); Sustainable finance e.g. (Fatemi & Fooladi, 2013); Social Investment e.g. (Dunfee, 2003); Triple Bottom Line e.g. (Elkington, 1997). In this paper, I have used the prominent terminologies of ESG and CSR to focus on the research to understand the sustainability motivation & disclosures in the Indian landscape. I have considered the terms CSR/ESG interchangeably, as these terms have their respective nuances but complement each other.

The term ESG became prominent in 2004 with the UN Global Compact publication “Who Cares Wins”, an initiative endorsed by major financial institutions in identifying ways to integrate environmental, social, and governance concerns into capital markets. Hence ESG refers to approach of the firms to integrate Environmental, Social and Governance concerns into their business models and encapsulates on how the financial position and performance of firms, and enterprise values, are affected by risks and opportunities related to environmental, social and governance matters. The idea of CSR emerged much earlier (in 1950s) with a growing awareness of the societal embeddedness and resulting consequences of business activities. Hence CSR refers to approach wherein firms become more socially responsible and adopt practices to become a better corporate citizen.

As ESG includes governance explicitly and CSR includes governance issues indirectly as it relates to environment and social considerations; ESG is more expansive than CSR (Gillan, Koch, & Starks, 2021). ESG has emerged as a dimension of sustainable corporate practices, which helps execute

policies that shape companies' effectiveness in recent years (Eccles, Ioannou, & Serafeim, 2014). To summarize, the concepts ESG and CSR describe different subsets and foci of a spectrum that spans the economic, environmental and social aspects of business activities and map into the concepts of financial and impact materiality impact on a firm.

Based on my extensive literature review of the diverse academic literature on ESG/CSR, it can be segmented under five themes with respect firm's perspective towards effective adoption of sustainability.



(a) ESG/CSR association with Financial Performance & Firm Value – This aspect of literature review explores the relationship between ESG/CSR on the financial performance and overall value of the firm.

(b) ESG/CSR association with Firm Characteristics – This aspect of literature review studies the influence of various firm characteristics (size, ownership, industry, board, CEO type etc.) on ESG/CSR approach of the firm.

(c) ESG/CSR association with Investor Approach - This area of literature review documents the influence of various types & categories of investors on sustainability approach of the firm.

(d) ESG/CSR association with Mandatory Disclosures & Spend – This aspect of literature review delves into the disclosure requirements and influence of mandatory disclosures & spend on the firm.

(e) ESG/CSR association with Measurement & Effectiveness - This aspect of literature review explores the effectiveness of measuring ESG/CSR performance of the firm.

The below section covers the above themes of academic literature review in detail.

(a) ESG/CSR association with Financial Performance & Firm Value

Driven by institutional investors considering ESG/CSR parameters as important aspect of investment decision making, there has been growing awareness on corporate side to be or at least appear to be socially responsible (Cornell & Damodaran, 2020). Larry Fink, CEO of Blackrock in his letter to CEOs says, “Each company’s prospects for growth are inextricable from its ability to operate sustainably and serve its full set of stakeholders.” In view of this, the linkage between ESG/CSR & financial performance of the company and linkage between ESG/CSR & overall firm value has been an avid area of academic research. The argument that sustainably responsible (High ESG rated) firms should generate higher revenues, or higher gross margins or face lower regulatory/legal cost; thereby leading to higher profits and better sustainable performance has been a generic perspective. However, the academic literature remains non conclusive as the findings are mixed with respect to ESG/CSR association with financial performance and overall firm value.

(Waddock & Graves, 1997) indicated that companies with high social performance ranking also ranked high on financial performance. The study of Waddock & Graves, 1997 was extended over a longer time period (1991-2013) by (Zhao & Murrell, 2016) and they concluded that that original findings do not hold up. (Margolis, Elfenbein, & Walsh, 2009) in an extensive literature review of 251 studies in 214 manuscripts to analyse linkage between corporate social performance and corporate financial performance, found only a positive link though small between the two. In view

of the small linkage, (Margolis, Elfenbein, & Walsh, 2009) indicates that “Citizens looking for solutions from any quarter to cure society’s pressing ills ought not appeal to financial returns alone to mobilize corporate involvement”. In analysing a panel of 2200 papers, (Friede, Busch, & Bassen, 2015) concluded that roughly 90% of the papers have ESG-Corporate financial performance non-negative relation; albeit not significant. (Zakriya, 2018) paper indicate that the sustainable aspects of ESG/CSR are associated with superior financial performance in terms of both accounting and market-based value. A potential limitation of the academic literature is that ESG/CSR is endogenous with respect to corporate financial performance, i.e., a company’s decision to engage in ESG/CSR activities likely correlates with unobservable firm characteristics that may also affect financial performance (Flammer C. , 2015).

While companies would want to be sustainable because they believe in the same or would like to avoid fines/ penalties as reputational damage can have long term consequences. (Karpoff, Lott, & Wehrly, 2005) examines the fines, damage awards, remediation costs, and market value losses imposed on companies that violate environmental regulations. They find that the primary deterrents to environmental violations are legal penalties, and not the reputational penalties, as while environmental violators suffer statistically significant losses in the market value of firm equity, the losses reflect these firms’ legal penalties and the market-induced reputational penalties, on average, are negligible. As evident from above, the relation between ESG/CSR and financial performance of the firm is not straight forward. A study by (Kim, Kim, & Qian, 2018) consider industry competition as a moderator while determining relationship linkage between ESG/CSR performance and financial performance. The said study indicate that positive ESG/CSR performance enhance firm financial performance when the firm’s competitive-action level is high whereas negative ESG/CSR performance improve firm financial performance when the competitive-action level is low.

Apart from above, there is ample academic literature examining linkage between sustainability and firm value. If the link between profitability and sustainability is not strong, the link between firm value and sustainability may have an independent relationship as socially responsible firms perceived to be less risky, may have lower discount rates, leading to higher firm value. In his study, (Flammer, 2015) highlight that ESG/CSR engagement leads to a significant increase in shareholder value and has a positive impact on operating performance (return on assets, net profit margin, and return on equity). (Kempf & Osthoff, 2007) report positive & significant risk-adjusted returns during 1992–2004 for a US SRI stock portfolio. In their study, (Bénabou & Tirole, 2010) highlight that that adoption of ESG/CSR is a complex interplay of genuine altruism, social or self-image concerns and material incentives (defined by laws & taxes) and observe that firms committed to ESG/CSR goals focus more on long term shareholder value.

On other hand, studies also indicate that ESG being a qualitative aspect on how company's' are managing their environment, keeping employees motivated, robust governance etc; is akin to critical intangible differentiating strengths of a company that create long term financial and social returns. (Edmans, 2023) in his paper suggest that improving ESG performance is akin to improving other intangibles which are value drivers of a company and indicates that great companies are required and not just companies that are great at ESG.

(Eccles, Ioannou, & Serafeim, 2014) indicate that high sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market and accounting performance as they have more established processes for stakeholder engagement, exhibit higher measurement and disclosure of nonfinancial information. It would be relevant to highlight that market value of firm gets significantly influenced by intangible assets. As of 2020, 90% of the S&P500 market value consisted of intangible assets, an increase from 17% in 1975 (Ocean-Tomo, 2022) indicating that firm value has moved beyond physical asset value and is now primarily dependent on intangibles such as company reputation, customer loyalty etc, critical ingredients of

sustainability. Sustainability can also be an effective tool to create competitive differentiation. (Ioannou & Serafeim, 2019) explore how companies make strategic choices in the sustainability context to maintain differentiation advantage when faced with imitation pressure by industry peers. They show that even though sustainability actions in an industry get imitated, some companies can maintain their competitive advantage by undertaking unique action, characterised by high degree of novelty. While the expenditure incurred towards managing environmental risk may imply a drag on firm profitability, a study by (Sharfman & Fernando, 2008) on examining the capital market's response to firms' improved environmental risk management, suggest that such improved environmental risk management improves the market's risk perception of the firms and is associated with a lower cost of capital.

Few literature papers fail to find any performance difference between ESG funds and conventional funds. (Raghunandan and Rajgopal 2022) observe that ESG funds underperform financially relative to other funds within same asset manager. In their paper (Hong, Kubik, & Scheinkman, 2012) observe linkage between financial health of a firm with overall societal goodness it creates and provide causal evidence that less financially constrained firms tend to have better ESG/CSR performance.

(b) ESG/CSR association with Firm Characteristics

It is critical to understand how firms enact the approach of sustainability. Robust development of sustainability framework commences with organization commitment and formulation of board approved policy stating the company general philosophy for improving environmental, social and governance improvement. The second step is the evaluation and goal setting, during which the company formulates an approach to translate its policy into action and defines management priorities. The third step is creating management structure to realise the defined goals and periodically monitor the progress and take remediation measures. Many corporates have made

their sustainable targets public to show case commitment and have also instituted critical assessments by internal audits and external reviews.

This stream of literature examines the linkage of firm characteristics with overall sustainability approach of the organization. (Gallo & Christensen, 2011) find evidence that Organizational size, Ownership, and Industry are strongly related with support mechanisms and reporting of sustainability. Larger firms have a higher number of stakeholders and therefore attract higher attention. For such firms usually industry leaders in size and profits have sufficient resources (funds & manpower) to respond to stakeholders and can devote time and attention to formalise sustainability policy and approach. (Drempetic, Klein, & Zwergel, 2020) highlight that large firms with higher resources have an advantage in providing more disclosures, thereby improving their ESG ratings. (Hart & Sharma, 2004) indicate that publicly traded firms will practice sustainability reporting more extensively than privately held firms.

In a study to explore role of capabilities, resources and ownership structure on the cost of environmental management system adoption, (Darnall & Edwards Jr, 2006) conclude that publicly traded companies incurred the lowest cost; followed by privately owned companies and then by government owned companies incurring relatively higher costs. The authors observed that this was due to companies with higher internal competencies were less reliant on external resources, thereby incurring lower cost.

Strong corporate governance vide appointment of experienced and independent board members also facilitates better compliance and improved sustainability practices. Companies are expected to incorporate ESG responsibilities in their business decision making processes so that they can comprehensively address potential adverse impact on society and the environment and create long term value. This integrated approach of business decision making facilitates mitigating underlying risks, managing stakeholders' expectations, whilst also potentially identifying new business opportunities. (Shive & Forster, 2020) in their research find negative linkage between emission

levels, institutional ownership and board size, thereby suggesting that increased oversight in the firm decision making may reduce externalities. Aligned with the same, (Chava, 2014) observe that firms with environmental concerns have lower institutional ownership. (Mallin, Michelon, & Raggi, 2013) explore disclosures being used as signalling tool and find a positive relationship between corporate social performance and social and environmental disclosure. (Cormier, Magnan, & Van Velthoven, 2005) results show that information costs, a firm's financial condition, ownership as well as public pressures directly influence the level of corporate environmental disclosures.

Do the ESG investments and practices vary when the firm is primarily family controlled, like many emerging companies in India? (Abeysekera & Fernando, 2020) show that family firms are more consistent towards shareholder wealth maximisation as compared to non-family firms in making environmental investments. The study indicates that family firm approach towards environment investments is based on alignment between of shareholder and societal interests, as compared to a non-family firm approach. Consistent with this and expropriation hypothesis of family control, (El Ghoul, Guedhami, Wang, & Kwok, 2016) find that family-controlled firms display lower CSR performance, and this underperformance is accentuated in event of agency problems in families or regions with weaker institutions.

With increasing globalisation, it is also critical to understand the ESG/CSR adoption approach of multinational companies (MNCs) across the markets they operate. In a cross-country research analysis of ESG/CSR practices, (Cai, Pan, & Statman, 2016) indicate that country factors rather than firm characteristics matter more in explaining variation of ESG/CSR performance. The said study indicates that culture, institutional strength (legal system, civil liberties etc) along with stage of economic development of a country play significant role in explaining variations in ESG/CSR ratings & performance. This showcases that MNCs with home countries more economically developed than India tends to seek higher ESG/CSR reputation. Further, (Boubakri, El Ghoul, Wang, Guedhami, & Kwok, 2016) findings compliment the above study and indicate that cross listed firms relative to

non-listed domestic firms have better ESG/CSR performance due to influence of country level institutional strength and sustainability governance standards.

There exists academic literature exploring CEO characteristics and life experiences influence ESG/CSR practices. (Borghesi, Houston, & Naranjo, 2014) observe that female CEOs and younger CEOs are significantly more likely to invest in CSR. The authors find that CEOs appearing in the media more frequently are significantly more likely to invest in CSR, thereby suggesting that these types of CEOs make CSR investments for greater private benefits or their beliefs that media attention would create higher shareholder value. (Hrazdil, Mahmoudian, & Nazari, 2021) study the CEO's personality traits association with firms' sustainability performance and highlight firms with extraverted CEOs' deliver higher ESG/CSR performance.

(c) Investor Approach towards ESG/CSR

Investors demand for information on ESG/CSR activities from corporates is rising (Amel-Zadeh & Serafeim, 2018) to address growing stakeholder expectations. Further, as large institutional investors are signatories to PRI, they have committed to follow six principles and incorporate ESG issues into investment practice. (Riedl & Smeets, 2017) document that demands for ESG funds' investments may arise from social preferences and social signaling, while the financial motives play less of a role. The study findings indicate that "on average investors with a strong social motivation are willing to forgo financial returns to invest in accordance with their social preferences." It is observed that investor preferences are more driven by ESG footprint and sustainability criteria.

(Hartzmark & Sussman, 2019) indicate that net volume of equity flows inflows is higher in the funds or companies rated high on sustainability and also didn't observe any evidence to showcase that high sustainability funds outperform low sustainability funds. This indicates the rationale of more & more funds seeking sustainability tag and (Ceccarelli, Ramelli, & Wagner, 2023) in their paper showcase that average investor has preference for climate friendly funds. This led to large advent

of sustainable funds enhancing their AUM; however, the sustainability or ESG tag on the fund was no guarantee for the better performance on the ESG parameters; thereby raising concerns on Greenwashing. The term Greenwashing is generally used to indicate falsification of information that firms are sustainable and ESG friendly via their disclosures or campaigns. Firms' or investors emphasis on favourable observable aspects and avoidance of other unobservable or unfavourable aspects in their disclosures are often labelled as greenwashing (Wu, Zhang, & Xie, 2020). Study by (Kim & Yoon, 2020) find that many funds use the PRI status to attract capital and only a small number of funds make notable improvement to the ESG /CSR performance. (Gibson Brandon, Glossner, Krueger, Matos, & Steffen, 2022) in their study indicate that responsible investing does not enhance returns but reduces risk, and better ESG portfolio level scores in EU is exhibited by institutional investors that publicly commit to Responsible Investing.

The class of investor and investment timeframe also influence the underlying sustainability activity in a company. Academic studies also indicate that ESG/CSR approach indicates to foster long term investment mindset amongst investors. A study by (Benson & Humphrey, 2008) suggest that non-financial utility derived by ESG investors may affect their decision-making process and find that ESG investors switch funds lower than conventional investors and the underlying fund flow in ESG funds is less sensitive to past fund performance than conventional fund flow past performance. (Krueger, 2015) study observe that investors respond strongly negatively to negative ESG/CSR events and weakly negatively to positive ESG/CSR events.

Academic literature also delves into the institutional investor approach in building a sustainable portfolio. The most common approach amongst investors in building a sustainable portfolio is exclusionary screening, wherein specific industries or companies associated with considered unethical behaviour are dropped. The literature indicates that exclusionary screening is considered an outdated approach and investors are considering positive screening coupled with active ownership and engagement with investee companies for best in class investing (Sparkes & Cowton,

2004). Enhanced regulatory guidelines and reporting requirements has facilitated this transition towards integrated approach, thereby leading to pressure on companies towards adopting sustainability.

(d) ESG/CSR association with Mandatory Disclosure or Spend Approach

Does enactment of laws and regulations enhance the sustainable economic development of a company & society and whether societal good is business responsibility or government accountability? These are an actively debated topics in academic literature. However, Governments across the world are demanding that corporates contribute towards social causes. (Hess, 2007) argues that “social reporting can be an important form of New Governance regulation to achieve stakeholder accountability” and this reporting can facilitate enhanced engagement of firms with its stakeholder groups. Sustainability reporting requirements and mandatory disclosures from companies have expanded significantly, thereby making the firms to review their internal organization structures and provide more disclosures and also be prepared to use the information disclosed by others. To ensure robustness of sustainability claims made by the companies to investors, consumers & regulators, few countries have introduced the need of an independent assurances from external parties. European Union implemented a legislation (2014/95/EU) making ESG/CSR disclosures mandatory for listed companies in EU states. Countries like India, South Africa, Malaysia, China etc have also made disclosure mandatory for ESG/CSR. As mentioned earlier, India became the first country in the world to have legislation to have both mandatory disclosures and mandatory CSR spend on specified activities.

The study by (Reid & Toffel, 2009) conclude that ESG/CSR reporting can be used to proactively abate societal pressure and showcases that firms that have been targeted by shareholder actions are more likely to publicly disclose information. (Ioannou & Serafeim, 2017) investigate and document that mandatory disclosures of sustainability information have significant consequences

on managerial practices. Their study indicates that the social responsibility of business leaders increases after the adoption of mandatory sustainability reporting laws and regulations and these effects are more pronounced in countries with stronger institutional framework of legal enforcement and assurances sought on provided disclosures. Aligned with the above, (Reid & Toffel, 2009) demonstrate that pressure from both shareholder activists and government regulators may elicit change in organizational practices. Hence stringent government regulations can limit inefficient corporate practices and enhances transparency of ESG/CSR activities allowing them to benchmark themselves against peers.

On the other hand, literature also indicates scepticism whether mandatory disclosures or spend will be effective in achieving the overall purpose. As there are multiple disclosures standards, across various reporting formats, the sustainability reports of firms have become multidimensional, making standardization and comparisons difficult (Amel-Zadeh & Serafeim, 2018). (Manchiraju & Mishra, 2022) indicate that CSR spending regulations resulted in significant improvement in CSR performance of Indian companies, thereby affirming the effectiveness of government legislation. However mandatory CSR spending legislation has changed the nature of CSR being voluntary to a necessary behavioral action required from a corporate. Does this imply that compliance with the CSR law is sufficient to be considered socially responsible or corporates with strong beliefs & values should endeavor to contribute more than the minimum required? (Rajgopal & Tantri, 2023) study indicates that regulatory intervention in CSR diminishes its signaling value and leads to a reduction in voluntary CSR spending. Further, regulatory enforceability impacts the sustainability practices of a firm, and negatively impacted the share price of firms (Manchiraju & Rajgopal, 2017), thereby indicating that mandatory CSR activities can impose social burden on the operations of the company at the expense of shareholders. Due to mandatory CSR requirements, while the aggregate CSR contribution by Indian companies has increased from Rs.10,066 crores during Yr. 2014-15 to

Rs. 25,897 crores during Yr. 2021-22, it needs to be evaluated whether societal good objective has been achieved.

Purpose of ESG/CSR may vary from genuine altruistic belief towards society, complying with the regulations and capitalizing on the wave of sustainability. The last aspect is wherein firms resort to greenwashing, whereby they selectively disclose information used for ESG ratings and / or provide disclosures to create positivity. Many companies provide mandatory disclosures, but the information may be generic or boiler plate sustainability information in their regulatory filing (Christensen, Hail, & Leuz, 2018). Some firms may be driven with sole purpose of profit maximization, whereas some with a goal to be socially responsible, i.e., motivated not only by profit, but also by a genuine concern for enhancing societal good. Firms with profit maximization purpose, engages in greenwashing by providing limited sustainability disclosures, to mimic the socially responsible firm & gain external acceptance. In line with the same thought, (Cahan, Chen, Chen, & Nguyen, 2015) show that firms can influence their media coverage through ESG/CSR performance.

(Gao, He, & Wu, 2021) indicate that firms resort to ESG/CSR to signal quality in adverse situations and this display of ESG/CSR engagements is enhanced during times of litigation risk, intense market competition, greater fall in share prices. This indicates that higher disclosure around an issue is not necessarily indicative of better performance on the issue but in some cases, it is a signal of future bad news (Serafeim & Grewal, 2017). In their study, (Mallin, Michelin, & Raggi, 2013) suggests that disclosures are used as a legitimacy tool and also as a signal to communicate superior performance.

In the book, (Eccles & Krzus, 2010) advocate the concept of One Report, which combines financial and nonfinancial information reporting revealing their impact on each other and potentially changing the approach of companies & investors in embedding the sustainability issues & disclosures in their strategy & operations. (Porter, Serafeim, & Kramer, 2019) highlight that

integrated approach is critical and companies which integrate ESG/CSR into their business strategy deliver alpha (superior returns) as compared to companies meeting ESG/CSR checklist. The overall literature remains divergent on the extent of disclosures and impact of mandatory disclosures & spent.

(e) ESG/ CSR association with Measurement & Effectiveness

Due to the varied amount of information available in sustainability reports of companies, which is difficult to standardise and compare; there is strong reliance on the ESG rating as many investors are unable to assess the sustainability of companies on their own. ESG Ratings lend legitimacy to company & investors and the ESG ratings of both stock and bonds has evolved into the USD 2.8trillion of investable funds tagged as sustainable. There are large number of ESG data & rating providers and include many large established players like Bloomberg, MSCI, Thomson Reuters – Refinitiv, Standard & Poor's – Trucost, FTSE and more specialized sustainability players like Sustainalytics, ISS, EIRIS, Vigeo, and Carbon4 Finance etc. The rating agencies provide ESG ratings by collating & analysing information on a large set of E, S & G issues, available in public sources as well as directly provided by companies through use of their sophisticated methods & proprietary models. ESG ratings have become a barometer for evaluating the sustainability effectiveness of a corporate and (Amel-Zadeh & Serafeim, 2018) find evidence that the use of ESG information has primarily financial rather than ethical motives. A popular belief is that companies with high ESG ratings will deliver better stakeholder value and shareholder returns; however, this believe remains inconclusive despite multiple studies. (Humphrey, Lee, & Shen, 2012) elaborate that firms with varied ESG ratings (high or low) do not have differing returns and do not impact idiosyncratic risk. On the other hand, a study by (Chava, 2014) find that ESG performance of a firm has significant effect on its cost of capital and indicates that cost of debt or equity is higher for firms with higher climate change concerns.

The ESG ratings coupled with the firms' financial performance, is considered as the basis for an investment decision. In view of this institutional investors consider ESG ratings as an important constituent of their investment decisions and corporates endeavour to improve their ESG ratings. (Li & Polychronopoulos, 2020) indicate existence of 70 different firms providing ESG ratings and as each provider has a unique methodology for computing company-specific ratings, ESG ratings vary markedly by ESG ratings provider. This has led to varied rating agencies to score same company differently.

The key purpose of ESG rating agencies is to have an accurate reflection of sustainability performance of the firm into a distinct ESG rating, which can be effectively used for making investment decisions and/or making companies accountable for their ESG performance. This is a critical aspect of development of sustainability as ESG funds do not have their independent diligence of E, S and G performance of firms and instead primarily rely on the evaluation provided by rating agencies. The accuracy and consistency of the ESG rating would also enable companies to evaluate progress of their ESG efforts in producing the intended outcomes and strengthen their approach to imbibe this in overall business strategy and operating plans. (Kotsantonis & Serafeim, 2019) highlight four challenges with respect to ESG data and measurement : Data Inconsistency, Difficulty of benchmarking, Data imputation and Divergence of metrics evaluation. Considering subjectivity in ESG data, (Freiberg, Rogers, & Serafeim, 2020) in their research paper have showcased a framework to understand how ESG issues become material thereby impacting profitability & valuation for investors, companies & regulators to be better prepared.

For effective use of ESG data for investment decision making the financial information need to be timely, comparable and reliable. In their survey based academic paper (Jonsdottir, Sigurjonsson, Johannsdottir, & Wendt, 2022) summarize that lack of materiality, accuracy and reliability are the key barriers in using ESG data effectively for investment decisions. Further showcasing inconsistencies of available data, (Thomas, Yao, Zhang, & Zhu, 2022) find that positive relation

between meeting consensus EPS and pollution levels is higher for firms with higher ESG ratings (E more than S & G). Consistent with these (Grewal & Serafeim, 2020) suggest that ESG ratings primarily reflect ESG policies rather than outcome of those disclosed policies. In a review of BRT signatories, (Raghunandan & Rajgopal, 2022) suggest that firm's proclamation of stakeholder centric behaviour does not corroborate with its real actions vide its operations and showcase that BRT signatories have higher rates of environmental and labor related compliance violations. This study also reviews the accuracy of ESG scores and observes that ESG scores are not correlated with compliance records; but are correlated with the presence of ESG voluntary disclosures. In their another paper studying the investment performance of ESG funds, (Raghunandan & Rajgopal, 2022) find no evidence that ESG funds actually pick stocks with better "E" and "S" relative to non-ESG funds by the same issuers and also indicate that ESG funds charge higher management fees and obtain lower stock returns relative to non-ESG funds run by the same asset managers in the same years.

Due to perceived inconsistencies in ESG rating methodologies, a company may have different ESG ratings from varied rating providers, thereby raising concerns on ESG rating maybe the appropriate benchmark. The International Organization of Securities Commissions, the international association of various national securities regulators, in their fact-finding exercise had observed that there is a lack of transparency about the methodologies underpinning ESG ratings and little clarity and alignment on definitions on what ESG ratings intend to measure. Post consultation with market players, final report has recommended (IOSCO, 2021) that regulators could consider focusing greater attention on the use of ESG ratings and data products and the activities of ESG rating and data products providers in their jurisdictions.

Considering concerns on greenwashing, regulators across USA, Europe and Asia are enhancing legislations for ESG Rating service providers so as to provide more transparency on methodology adopted for the disclosed ratings. There are ongoing deliberations to have regulations to split the

ESG ratings and ESG consulting business. In line with the above, SEBI has issued regulations (June 2023) regarding an accreditation framework for ESG rating companies in India. With ESG disclosures standards being harmonised, strengthening regulations for ESG rating agencies would improve transparencies with respect to rating methodologies, thereby reducing reliability concerns on ESG ratings.

In the analysis of Thomson Reuters Refinitiv ESG ratings, (Berg, Fabisik, & Sautner, 2020) document widespread changes to the historical retroactive rating changes & raise concerns on consistency and reliability of the critical benchmark used by asset managers with respect to portfolio allocation and performance. Further disagreement in the ESG ratings scores provided by the rating agencies for a company disperses the effect of preferences of ESG investors on asset prices (Billio, Costola, Hristova, Latino, & Pelizzon, 2021). (Hartzmark & Sussman, 2019) show that investors provide positive value on ESG ratings and the underlying perceptions about sustainability drive mutual fund flows.

ESG ratings and ESG are also getting highly politicised in multiple parts of the world. In 2022, S&P Global was subject to investigations in several US states alleging that the company's ESG evaluations, including its ESG credit indicators, were politicizing financial analysis (Segal, 2023). In August 2023, S&P announced discontinuing issuance of the alphanumeric scale and replacing ESG analysis with only a text and has indicated that narrative sections in rating reports are best suited to provide detail and transparency on the ESG credit factors that are material to overall rating analysis. Prior to this, S&P Global (since 2021) has been providing an alphanumeric ESG credit indicators (1 (positive)-to-5 (strongly negative) scale) providing an influence of various ESG-related factors on its credit rating analysis. It is unclear whether this change is doing an about-face by S&P Global or a positive step to complement the rating analysis. However, replacement of alphanumeric scale with narrative text creates subjectivity for analysts.

As ESG data has qualitative aspects and lacks consistency and transparency; many investors haven't been able to integrate the ESG aspect comprehensively in their investment decisions and use ESG data for risk management (Van Duuren, Plantinga, & Scholtens, 2016) and portfolio screening purposes.

As can be seen above, the above literature review encompassing various aspects of sustainability adoptability by a firm is vast but still remain non conclusive. Increased regulations have driven companies to move forward on path of sustainability, increase disclosures, and imbibe the same. However, the degree of adoption varies and the academic journal articles remaining divided on motivation for performing sustainability, providing disclosures and ESG/CSR linkage with financial performance or firm value or generating superior returns. Further, most of the literature is focussed on research from secondary data and explores the sustainability perspective from the lens of investors. Additionally, there is limited academic literature focussed from India perspective. This paper caters to the existing gap in academic research by seeking first hand insights on sustainability by using the survey-based methodology and explores this from the lens of Indian firms to understand their motivations. While the findings of the study are presented in the form of a developed framework to understand the sustainability practices of firms in section V, it is critical to understand the significant developments on sustainability firm both globally (section III) and in India (section IV).

Section II - Review of Global Approach on Sustainability

This section provides a perspective on key global initiatives influencing sustainability and various reporting framework on sustainability. United Nations (UN) and European Union have played significant role in advocacy of sustainability vide their various initiatives for more than two decades and a summary of their sustainability initiatives is summarised below:

United Nations (UN)

- a) UN in collaboration with leading companies launched United Nations Global Compact (UNGC) (United Nations Global Compact, 2023) in 2000. More than 23,615 global corporates across 167 countries have been signatories of UNGC initiatives and have committed to adhere to ten principles of the UNGC covering the areas of human rights, labor, environment, and anti-corruption. This initiative aided the companies in becoming more sustainable.
- b) UN supported global network of investors established Principle of Responsible Investment (PRI) (PRI, 2023) in 2006 to provide guidance on best ESG practices for asset owners, asset managers, consultants, and data suppliers. PRI holds collaborative engagements between investors and regulators on the topic of responsible investment and has developed six voluntary principles that provide overarching guidance for the members to incorporate ESG issues into investment practice. PRI signatories commit to following six principles:
 - 1. Incorporate ESG issues into investment analysis and decision-making processes.
 - 2. Be active owners and incorporate ESG issues into the ownership policies and practices.
 - 3. Seek appropriate disclosure on ESG issues by the entities in the invested entities.
 - 4. Promote acceptance and implementation of the principles within the investment industry.
 - 5. Work together to enhance the effectiveness in implementing the principles.
 - 6. Report on the activities and progress towards implementing the principles.

Increase in PRI membership has led to increase in ESG assets with total number of signatories rising to 5,372 with assets under management of about US\$121.3 trillion (as of June 30, 2023). The PRI has collaborated with other organizations and multiple stock exchanges across the world to develop a responsible initiatives Sustainable Stock Exchanges (SSE). SSE is a UN initiative to develop a global platform to drive collaboration between stock exchanges, regulators, policy makers, investors and companies to enhance ESG performance and encourage sustainable investments.

- c) With a focus to manage concerns on climate risk, United Nations Framework Convention on Climate Change (UNFCCC) (UNFCCC, 2023) launched Rio de Janeiro Earth Summit in 1992. UNFCCC organizes annual Conference of the Parties (COP) meetings, with the focus to reduce GHG emissions to mitigate climate risk. Few of the COP has been a significant contributor towards formulating plan towards GHG emission reduction.
- COP meeting (1997) in Kyoto focussed towards making industrialized countries agree to individual GHG emission reduction targets. This became known as Kyoto Protocol.
 - COP meeting (2015) in Paris committed to keep global temperature rise this century well below 2°C (3.6°F) above pre-industrial levels. This became known as Paris Agreement and urged all participating countries, both developed and emerging economies to work collectively and strengthen their response to the threat of climate change. The Paris Agreement requests each country to prepare, communicate and maintain Nationally Determined Contributions (NDCs), and set targets for reducing greenhouse gas emissions that cause climate change. The country plan is required to be submitted to UNFCCC every five years and defines the emission targets, approach to meet the target and underlying monitoring mechanism to verify progress. This coordination would help in determining whether world collectively meets its long-term goal defined under Paris Agreement. All the 193 members of Paris Agreement have issued a first NDC, but ambition and quality of the

plan vary due to insufficient political commitment and/or lack of adequate finance as developing countries depend on developed countries to provide \$100 bio in climate finance support to meet their NDC commitments.

- COP meeting (2021) in Glasgow accentuated the Paris Agreement, leading to countries and companies announcing their Net Zero Plans, showcasing the commitments to reduce GHG emissions. UN-backed global campaign “Race to Zero” is towards garnering everyone (including companies, cities, regions, and financial and educational institutions—to take committed and immediate action to halve global GHG emissions by 2030. Subsequently, many sovereigns and companies have announced their Net Zero plans. India has committed to achieve Net Zero emissions by 2070.
- COP meeting (2023) in Dubai had largest number of participants (nearly 100,000) in an almost 30years history of summits and twice the number that attended the COP27 at Sharm El-Sheikh in Egypt last year. This event reiterated the countries commitment towards path to Net Zero and showcased three key pledges (i) while Oil & Gas companies are not yet committed to produce less fossil fuel, they pledged to cut Methane emissions from their production (ii) triple the world’s renewable energy generation capacity to 11,000 gigawatts by 2030 (iii) double the annual rate of energy efficiency improvement to 4% by 2030. I attended the COP Dubai and while there was lots of positivity and need for sustainability; there was also a realisation that previous COP commitments haven’t been met and significant financial contribution from developed world to emerging countries, critical to meet the net zero path, has been delayed.

As the progress on Net Zero Plans has been slower than showcased commitments by nations and companies, UN has formulated a body – Overshoot Commission to propose strategies to mitigate risks should the global warming exceed 1.5-degree Celsius target. Further, aspects of ESG have been politicised with respect prevailing economic conditions

and respective sovereign interests, as there is a cost to achieve Net Zero commitments. In view of ambiguity on ESG qualitative aspects, many financial companies are facing accusation of greenwashing. The second-largest asset manager, Vanguard has left the Net Zero Asset Managers initiative and leading insurance companies like Swiss Re and Zurich, have withdrawn from the Net Zero Insurance Alliance.

- d) UN members, in 2015, formulated seventeen Sustainable Development Goals (SDGs) to address key challenges facing the world - poverty, climate change, inequality, health, education and peace.



Source: [THE 17 GOALS | Sustainable Development \(un.org\)](https://un.org/sustainabledevelopment/)

The above 17 SDGs have become a powerful framework for corporates and investor groups to follow and many global companies now include a commitment to applicable SDGs and its status in their sustainability reports.

- e) The drive towards considering ESG while making investment decisions by equity investors has also been extended to banks, as banks are considering social & environmental issues in their lending decisions to evaluate long term effects on underlying credit risks with respect to regulatory, litigation risk of the borrower. A large number of banks are signatories to the United Nations Environment Programme's Statement and have adopted the Equator

Principles; thereby committing to consider social and environmental issues in project finance. Currently 140 financial institutions in 39 countries are members of the Equator Principles, which is association of financial institutions formed to establish a common risk management framework to identify, assess and manage environmental and social risks when financing Projects (Weber & Acheta, 2016). In view the above, many global banks have announced the decision to not finance new thermal or hydrocarbon projects, but actively support the clean energy and renewable energy projects. Significant number of global banks have also announced their Net zero greenhouse gas emission targets.

European Union (EU)

EU guided by the SDGs and Paris Agreement, has been at the forefront of formulating regulations on Sustainability. In March 2021, as a part of EU Action plan, the Sustainable Finance Disclosure Regulation (SFDR) was introduced. Following the above, the EU Taxonomy Regulation was rolled out from January 2022. These regulations focus on the environmental criteria, specifies enhanced disclosure requirements and addresses matters pertaining to greenwashing. The SFDR is designed to standardise the sustainability disclosures from investment funds to support institutional asset owners and retail clients for transparent comparison, evaluation & selection. This regulation applies for financial advisors and market participants in European Economic Areas and the mandatory disclosures are required for the investment firm and for the financial product.

EU has adopted a legislation Corporate Sustainability Reporting Directive (“CSRD”) in November 2022, thereby strengthening and extending the scope of the existing EU reporting requirements. CSRD would lead to significant increase in number of companies covered (49,000 Vs 11,700 currently) by this regulations and also mandates a third-party assurance and external auditing. Apart from listed companies on EU regulated market listed securities, CSRD would also be applicable for (a) EU companies with balance sheet exceeding Euro 20mio and net turnover exceeding Euro 40mio and more than 250 employees (b) Non-EU companies with a consolidated

or individual net turnover exceeding Euro 150mio in EU for last two consecutive financial years; and which has a branch/company in EU that generates an annual net turnover in excess of EUR 40 million in the preceding financial year. The application of the CSRD will take place during next four financial years commencing from 1 January 2024 to 2028.

Sustainability Disclosures

While the companies adopt the IFRS standards for financial reporting, which is uniformly accepted in more than 140+ countries, there is no single global reporting standard for sustainability disclosures. Global Reporting Initiative (GRI), an international non-governmental organization founded in 1997; is the most widely adopted sustainability standard for non-financial reporting. Other widely accepted standards include those published by Task Force on Climate Related Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB). Based on the annual report of companies, it is witnessed that more than one or a combination of these standards is adopted by most international and Indian companies.

GRI standards (GRI, 2023) require detailed disclosures and are focussed on stakeholders (not limited to shareholders) and are structured as a system of interrelated standards that are organized into three series: GRI Universal Standards, GRI Sector Standards, and GRI Topic Standards. While the Universal Standards are used by all companies, Sector Standards are considered according to the sectors in which companies operate, and the Topic Standards require companies to provide its impact in relation to the identified material topics.

SASB standards are also applied to all companies, but unlike GRI standards, they limit disclosures to financial material issues. Whereas TCFD standards focus on climate change risks and are applicable for finance companies only. There is an ongoing work towards creating a common global sustainability standards with the formation of International Sustainability Standards Board (ISSB) by IFRS foundation in 2021. ISSB worked along with existing International Accounting Standards

Board (IASB) to develop alignment between financial reporting and sustainability reporting. ISSB formation also led to consolidation of two pre-existing sustainability frameworks, namely the Climate Disclosure Standards Board (CDSB – an affiliate of CDP) and The Value Reporting Foundation (VRF – which houses the Integrated Reporting Framework and the SASB industry-based standards).

The sustainability reporting being mandatory, or voluntary remains a point of active discussions globally. While mandatory ESG reporting enhances information available on the company, drives comparability and promotes social responsibility among business leaders; it also places a burden of providing disclosures on corporates. On other perspective, voluntary reporting indicates intrinsic business approach of management; is potentially market driven providing a competitive advantage to a company. However, there are still multiple issues surrounding the mandatory reporting -

- Lack of uniform standards – Corporates need to refer to multiple standards (GRI, SASB etc) and frameworks (TCFD) for providing their sustainability disclosures, making it strenuous for corporates and also for standardised comparison. Further, mandatory disclosures should be adaptable to businesses of varied sizes and sectors.
- Exclusion of Small & Medium Enterprises (SME) – Majority of the mandatory reporting standards are meant for large or publicly traded companies. SMEs generally account for 90% of the businesses and currently excluded from the scope of reporting. A simple concise disclosure framework needs to be developed for SMEs so as to deepen the sustainability approach in wider number of existing businesses, without creating significant challenges for the SMEs. This would also help in standardising the Scope 3 reporting expected from large or publicly traded companies.
- Governance Compatibility – While mandatory reporting drives additional disclosures, the quality and accuracy of the same would vary based on the governance practices in each market.

After long period of deliberations & consultations, ISSB released its first two standards, IFRS S1 and IFRS S2 in June 2023, for sustainability disclosures and TCFD framework forms the bedrock of these released standards (ISSB-IFRS, 2024). The ISSB standards would be used along with financial disclosures provided by companies. IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) & IFRS S2 (Climate-related Disclosures) remain voluntary and are applicable from Jan 1, 2024, subject to being incorporated into national regulations. Several countries – including Canada, UK, Singapore, Japan, South Korea, Nigeria, Brazil and Australia – have indicated they intend to legislate the above sustainability disclosure standards. IFRS S1 mandate companies to provide sustainability related risks and opportunities they face over the short, medium and long term. IFRS S2 is designed to be used with IFRS S1 and requires a company to disclose information about its governance, strategy, risk management and metrics and targets in respect of climate-related risks and opportunities. The company is required to disclose about physical risks (e.g., extreme weather events) as well as transition risks (e.g., changes in customer behaviour) as well as its scope 1, 2 and 3 emissions.

Recently IFRS foundation has been mandated with the supervision of TCFD, leading to further simplification of various governing bodies/board on sustainability reporting. ISSB proposes to develop additional specific sustainability disclosures pertaining to (a) Biodiversity / ecosystems (b) Human capital & Human rights (c) Integration in reporting to address existing challenges. The ability to measure the societal benefit from firms' sustainability actions is critical to direct firms to have focussed clear disclosures and to provide confidence to investors & other stakeholders on the progress and overcome concerns around woke capitalism. Emerging clarity on disclosure standards and integration reporting to establish connectivity between sustainability-related financial disclosures and a company's financial statements would enable uniformity and standardisation for easy comparison.

Section III - Review of Sustainability Approach in India

Sustainability approach in India commenced a transformation journey with the 2009 release of 'Voluntary Guidelines on Corporate Social Responsibility' by The Ministry of Corporate Affairs (MCA), Government of India (<https://www.mca.gov.in/>). These guidelines in 2011 were revised as 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' (NVGs) to align with India's socio-cultural priorities and the global best practices of Sustainable Development Goals (SDGs) & the United Nations Guiding Principles on Business & Human Rights (UNGPs).

The Corporate Governance initiatives in India commenced much earlier in 1998, wherein Confederation of India Industry (CII) published a "Desirable Code of Corporate Governance", highlighting desired good corporate governance practises for listed companies. Post that The Securities and Exchange Board of India (SEBI) stipulated clause 49 in listing agreements in year 1999 (based on recommendations of Kumar Mangalam Birla Committee report), which became the first formal regulatory framework for listed companies. These were later revised in 2004 (based on recommendations of Narayana Murthy Committee report) and then adopted as a guideline on corporate governance by MCA for voluntary adoption by the corporate sector in India.

In most parts of the world CSR is voluntary, whereas in few countries like France, Denmark, South Africa and China have a mandatory reporting obligation on the amount spent on CSR activities. Overtime India has strengthened its commitment towards NVGs and corporate governance by thrust of The Companies Act, 2013 (Act). The Act mandate companies to be more mindful of their stakeholders and India is probably the sole country in the world to regulate minimum CSR expenditure required in specified permitted activities. Section 135 of the Act made CSR mandatory, wherein companies meeting the criteria (Net Worth $\geq$ Rs. 500 crore OR Turnover $\geq$ Rs. 1000 crore OR Net Profit $\geq$ Rs. 5 crores during any financial year need to contribute minimum of 2% of the

average net profits made during the three immediately preceding financial years, in pursuance of its CSR Policy. The Act also specifies the list of below activities permissible under the mandatory CSR spent by the company.

a) Eradicating extreme hunger and poverty	b) Education promotion
c) Empowering women & promoting gender equality	d) Enhancing vocational skills
e) Reducing child mortality and improving maternal health	f) Social business projects
g) Combating diseases, human immunodeficiency virus etc	h) Ensuring environmental sustainability
i) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women	

Each of the company meeting the above criteria under the mandatory CSR regulations is required to have a board approved CSR policy and constitute a CSR Committee of the board. The CSR committee should consist of minimum 3 directors, of which at least one director shall be an independent director. The Act also reiterated that directors of a company have fiduciary responsibility towards all stakeholders (shareholders, employees, community & environment). Further, the companies are required to display board approved policy on their website and provide detailed disclosures in the annual report on the amount of required CSR contribution, actual CSR spent during the year and list of CSR projects or programs with detailed (value, type of permitted activity, specific modalities of execution) information on each CSR project along with their monitoring progress. As per the Act, the approved CSR activities are to be conducted through a :

- a) registered trust / society or a section 8 company established by the company or its holding or subsidiary or associate company.
- b) section 8 company or a registered trust / society, established by the Central Government or State Government or any entity established under an Act of Parliament or a State legislature.
- c) Third party (an external) section 8 company or a registered trust / society, having an established track record of 3 years in undertaking similar programs or projects.
- d) Incubators or institutes/organisations, engaged in research and development activity, as specified in the Act.

CSR in India has come a long way from being mere good-to-have philanthropy, orchestrated by a small group of companies due to legally mandated spends required by the law. CSR today has evolved to create systemic impact in society, working in sync with multiple key stakeholders and in alignment with key government priorities. The year 2024 marked the 10th year of the passing of the Companies Act, 2013 in India and over these years, there have been amendments to the law to achieve successful implementation of impactful CSR programmes by corporates. From 2023, an independent assurance of the CSR spent by the company has become mandatory, thereby further tightening the regulation.

Keeping pace with the sustainability regulations across the globe, SEBI has been enhancing the disclosure requirements from Indian listed companies over time. From the year 2012-13, SEBI had mandated the top 100 listed entities by market capitalisation to file Business Responsibility Reports (BRRs) make disclosures on their environmental, social and governance approach. The BRRs ESG voluntary disclosures enabled companies to consider holistic stakeholder engagements, beyond regulatory financial compliance. The requirement for filing BRRs was extended to the top 500 listed entities and later to 1000 listed entities by market capitalization from the financial year 2015-16 and 2018-19 respectively. The BRR is a non-financial reporting and was developed to reflect linkages to prevalent non-financial reporting formats, viz, Global Reporting Initiative (GRI),

Integrated Reporting (IR) etc., and SDGs. MCA's National Guidelines on Responsible Business Conduct (NGRBC) urge firms to imbibe the following Nine principles (MCA, 2019) -

1. Conduct and govern with integrity in a manner that is Ethical, Transparent and Accountable.
2. Provide goods and services in a manner that is sustainable and safe.
3. Respect and promote the well-being of all employees, including those in supply chains.
4. Respect the interests of and be responsive to all stakeholders.
5. Respect and promote human rights.
6. Respect and make efforts to protect and restore the environment.
7. Ensure responsible and transparent engagement in influencing public and regulatory policy.
8. Promote inclusive growth and equitable development.
9. Engage and provide value to the consumers in a responsible manner.

Government regulations warrant companies to integrate the above principles into their business strategy and operations, including its supply chain and provide required disclosures. This approach is to lead businesses to become accountable to all its stakeholders and remain responsible towards their environment & society.

While top 1000 listed companies by market capitalization have been providing the BRR disclosures, the format and quantum of the provided information varies leading to non-comparability & full usage of these disclosures. To align these submissions, the Committee on Business Responsibility Reporting (2020) has mandated these listed companies to provide ESG disclosures in a standardized format called Business Responsibility and Sustainability Report (BRSR) and have incorporated the above mentioned nine principles of NVG in the required disclosure. BRSR has been replaced with BRR from the financial year 2022-23 for top 1000 listed companies and for other companies (>1000 listed and unlisted), the disclosures continue to remain voluntary.

These standardised BRR disclosures warrant businesses to report on their environmental and social impact so that this information is leveraged by the stakeholders (customer, regulators, employees) for active engagement for enhancing societal welfare. The BRR reporting format comprise of three sections (A, B & C) seeking following key disclosures.

A) Section A : General Disclosures

This section is segmented into seven blocks seeking factual information on the company pertaining to (1) company details, (2) products & services, (3) operations (plants locations and markets served), (4) employees (permanent, non-permanent, differently abled and women), (5) Details of group (holding, subsidiary, associate companies), (6) CSR details (7) Transparency & disclosure compliance (grievances and material business conduct & sustainability issues).

B) Section B : Management and Process Disclosures

This section seeks demonstration of businesses that their structure, policies and process are in place towards adopting the Nine core principles of NGBRC (mentioned above).

C) Section C : Principle Wise Performance Disclosures

This section requires companies to demonstrate their performance in integrating each Principle within their key processes & decisions under two categories – Essential and Leadership. While the Essential indicators are mandatory to be disclosed in BRR; Leadership indicators are voluntarily disclosed by companies, which are at higher level to being socially, environmentally and ethically responsible.

In line with global trends, ESG awareness and investor interest in India for ESG is increasing significantly. There are ten ESG funds in India with Assets under management (AUM) of about INR 11,000 crores, though the ESG funds share (of total funds AUM) is relatively lower as compared to other markets in US/Europe. To enhance regulations and facilitate investments in sustainable finance, SEBI has permitted fund managers to adopt multiple ESG equity strategies for mutual

funds and have mandated that 65% of AUM has to be invested in companies that are reporting on comprehensive BRR submissions and providing assurance on such disclosures. This comes into effect from 1 October 2024 and an independent assurance would be required by mutual funds to provide confirmation of the compliance with guidelines.

Indian regulatory landscape on ESG and CSR has continued to evolve in line with global developments on sustainability. Top 1000 companies by market capitalisation provide BRR report in the specified formats along with CSR report as part of the annual report, however with varied degree of details and depth. Many companies also provide disclosures referencing compliance with specific TCFD, GRI, SASB standards etc in their sustainability reports. A marked change in quality of reporting by companies may be witnessed between large cap and mid cap companies potentially indicating effort and inclination required to provide elaborate disclosures.

As a conclusion, the mandatory BRR reporting framework is limited to top 1000 listed companies by market capitalisation and remains voluntary for smaller listed or unlisted companies in India. While such companies can voluntarily adopt providing disclosure approach; many of these smaller companies may not have the infrastructure for appropriate reporting and their reporting cost may likely to be high. However, companies seeking investments from venture capital or private equity funds are now being asked to evaluate ESG risk and opportunities. Majority of the Indian banks being listed and included in the top 1000 listed companies by market capitalisation have developed their own ESG framework and CSR policy and have commenced evaluating ESG factors in their credit proposals. In view of the enhancing ESG regulations globally, smaller companies may adopt specific KPIs from the reporting frameworks to provide guidance on social responsibility; however more awareness and handholding would be essential to imbibe robust sustainability practices.

Section IV - Survey Methodology – Design & Data

Survey Design & Delivery

For the research, I developed the survey questionnaire based on review of sustainability activities and disclosure academic literature and sought feedback on the draft of questionnaire from a group (varied sectors) of CFOs of large cap Indian listed companies, few CFOs of unlisted companies and some senior practicing leaders working in non-governmental bodies advocating sustainability. Each of the survey questions was linked with findings of existing academic literature to ensure that there is no bias in statements and this research can also provide a practical insights on theoretical findings. Based on the feedback received, I amended the set of questions. Using the Qualtrics platform, I created an online version of the survey and inserted appropriate logic in the survey flow to ensure its proper completion. I subsequently spoke with academic professors specialising in survey-based approach with the aim to reduce biases introduced by the wording and tone of the questions. I also tested the survey with small number of friends to seek feedback on survey accessibility, ease of navigation and language of the survey questionnaire.

Subsequently, I took guidance from my thesis committee and shortened and appropriately amended the questionnaire prior to submission to the ISB IRB committee for approval. The final version of the survey included 33# questions, however based on survey design logic, a respondent was required to answer 23-27# multiple choice questions, 1-5# ranking questions and an optional free text question.

The survey instrument is an online questionnaire with five sections. The initial section asks questions related to purpose of firm, firms' motivation & realised benefits of providing sustainability disclosures. The second section seeks to understand the nuances of ESG/CSR framework and the extent firms uses the ESG information for making investment decisions. The third section seeks impact of mandatory disclosures and gathers practitioners' perspective on few academic literature observations. The fourth section, based on firm being impacted by mandated

CSR regulations, delves into gathering insights into approach of their CSR contribution. The final section gathers demographic information about the firm and the practising manager. In the end, a free-text response option was provided for respondent to share any other perspective on sustainability. The free text qualitative responses by participants are summarised in Appendix A and full survey questionnaire is included in Appendix B.

The survey was conducted anonymously, and neither name of respondent nor their firms' name was sought. While the survey participation was completely voluntary and respondent could exit the survey anytime, response to the questions was sequential and mandatory. To obtain a practitioner perspective, the survey was sent to select senior (CXOs) Indian professionals who are directly or indirectly involved in the sustainability activities of their respective firms. This set of professionals were identified based on my professional contacts and acquaintances. I distributed the survey via email to about 225 senior CXOs over a period of 6 months and did multiple follow-ups via zoom calls, phone calls and mail exchanges to provide context of survey & seeking their responses.

I received a total of 100 complete responses, for an overall response rate of 44%. This response rate is significantly higher, when compared to other academic surveys in finance and accounting (Graham & Harvey, 2001); (Graham, Harvey & Rajgopal, 2005), (Dichev, Graham, Harvey, & Rajgopal, 2013)) as the survey was focussed on senior executives, who were engaged based on personal & professional acquaintances and personalised mails were sent to them.

I would like to point out that, like all other survey research, this study also suffers from potential limitations. Surveys collect data on beliefs, which might not always match with actual behaviour. Furthermore, rather than expressing their genuine ideas, executives may choose to recite justifications they learned in business school (assuming this is what people may want to hear). Even if executives do not explain their decision-making process in academic terms, it is still feasible that they choose (or come close to making) the best choices. Maybe some of the survey questions aren't

apparent. It's also possible that the responders don't precisely represent the larger population. I seek to offer distinctive information regarding the choices businesses make when it comes to ESG/CSR activities and disclosure regardless of these factors. While designing the survey appropriate measures were taken by engaging with academicians, industry professionals and conducting test runs to minimize these concerns. I anticipate that these findings will provide insights to researchers, practitioners, and regulators.

Summary statistics

The sample of respondents is broad across multiple industries including publicly traded and privately owned firms. The financial investors like asset managers and equity funds are excluded as the research objective is to understand the sustainability approach of a firm. I gather information about multiple dimensions of sustainability by incorporating aspects of ESG/CSR in the survey to seek insights into the motivation & benefits of sustainability for the firm. In addition, I ask specific questions concerning mandatory sustainability disclosures and ESG/CSR approach of the firm.

While the survey is anonymous, I gather demographic information to explore conditional effects in sustainability practices of firms. Self-reported summary data regarding the attributes of the sample firms are shown in Table 1. Demographic data that is commonly utilized in archival research to examine the conditioning effects of ESG/CSR practices was collected through the survey. The survey specifically asks for firm characteristics (such as CEO characteristics, ownership and employee strength) that are often used as a proxy to identify impending agency issues; size effects (annual revenues); age of the firm; governance mechanisms in place such as number of independent directors, women directors; independence of Chairman & Managing Director role; informational effects (public, listed in Indian Stock exchanges or international exchanges versus private,) and industry effects. The survey also had an open-ended section to share any other perspectives on sustainability. The above information was included in the survey as academic literature indicates influence of these firm characteristics in the adoption of sustainability by the firms.

Table 1: Demographic characteristics of the survey participants and the firms

Ownership Type			
	Freq	%	Cumm %
Listed on Indian Stock exchanges (BSE / NSE) or other International exchanges	47	47%	47%
Unlisted Firm, fully / majority owned by Indian shareholders	38	38%	85%
Unlisted Firm, part of a Multi-National Company (MNC) group	15	15%	100%
Total	100	100%	

Institutional shareholding			
	Freq	%	Cumm %
< 10%	37	37%	37%
>= 10 to < 25%	25	25%	62%
>= 25 to < 50%	22	22%	84%
>= 50%	16	16%	100%
Total	100	100%	

Sponsor shareholding			
	Freq	%	Cumm %
< 10%	14	14%	14%
>= 10 to < 25%	7	7%	21%
>= 25 to < 50%	21	21%	42%
>= 50%	58	58%	100%
Total	100	100%	

Industry			
	Freq	%	Cumm %
Manufacturing	43	43%	43%
Services	11	11%	54%
Oil & Gas, Mining, Energy	6	6%	60%
Finance	9	9%	69%
Diversified	10	10%	79%
Others	15	15%	94%
Technology	6	6%	100%
Total	100	100%	

Annual Revenues			
	Freq	%	Cumm %
< INR 1,000 crores	23	24.21%	24.21%
>= INR 1,000 to < 5,000 crores	31	33.63%	56.84%
>= INR 5,000 to < 10,000 crores	10	10.53%	67.37%
>= INR 10,000 to < 20,000 crores	18	18.95%	86.32%
>= INR 20,000 to < 40,000 crores	5	5.26%	91.58%
>= INR 40,000 crores	8	8.42%	100%
Total	95	100%	

Employee strength			
	Freq	%	Cumm %
< 500	13	13%	13%
>= 500 to < 3,000	34	34%	47%
>= 3,000 to < 10,000	25	25%	72%
>= 10,000 to < 25,000	14	14%	86%
>= 25,000	14	14%	100%
Total	100	100%	

Proportion of International trade			
	Freq	%	Cumm %
< 10% of sales	44	46.32%	46.32%
>= 10% to < 20% of sales	15	15.79%	62.11%
>= 20% to < 30% of sales	6	6.32%	68.42%
>= 30% of sales	30	31.58%	100%
Total	95	100%	

Women Directors on Board			
	Freq	%	Cumm %
None	20	20%	20%
>= 1	80	80%	100%
Total	100	100%	

% of Independent Directors on Board			
	Freq	%	Cumm %
< 1/3rd of the total no. of directors	45	45%	45%
>= 1/3rd of the total no. of directors	55	55%	100%
Total	100	100%	

Chairman and Managing Director / CEO role			
	Freq	%	Cumm %
Combined role. Chairman and MD/CEO role is performed by one director	32	32%	32%
Separate Roles. Chairman and MD/CEO are Related persons	21	21%	53%
Separate Roles. Chairman and MD/CEO are Non-related persons	47	47%	100%
Total	100	100%	

Age of Firm			
	Freq	%	Cumm %
< 5 years	5	5%	5%
>= 5 years to < 10 years	6	6%	11%
>= 10 years to < 25 years	29	29%	40%
>= 25 years to < 50 years	24	24%	64%
>= 50 years	36	36%	100%
Total	100	100%	

CEO Tenure			
	Freq	%	Cumm %
< 4 years	24	24%	24%
>= 4 years to < 10 years	36	36%	60%
>= 10 years	40	40%	100%
Total	100	100%	

CEO Age			
	Freq	%	Cumm %
< 40 years	2	2%	2%
>= 40 years to < 50 years	17	17%	19%
>= 50 years to < 60 years	52	52%	71%
>= 60 years	29	29%	100%
Total	100	100%	

The firms range in size from very large (8.42% have annual revenues of at least INR 40,000 crores) to small (24.21% of the sample enterprises have revenues of less than INR 1000 crores). Public firms listed on Indian stock exchanges (BSE/NSE), or other international stock exchanges comprised of 47%, while the private, unlisted firms constituted 53%. Furthermore, 36% of the sample firms were older than 50 years, 24% were between 25 and 50 years and the rest of the of the firms are under 25 years. In the CEO characteristics, 52% of the CEOs are aged between 50 and 60 years and 29% of them are older than 60 years. Corresponding to that 40 % of CEOs have tenure over 10 years while 36% of them have tenure between 4 to 10 years. Within Industry classification, the Manufacturing sector comprised 43%, and other energy-consuming sectors like Oil and Gas, Mining, Energy comprised 6% of the sample. The employee strength of the respondents was distributed with 28% of the firms had > 10,000 employees. 38% of the firms had institutional shareholding > 25% and 80% of the firms had at least one women director on the board. Further, 55% of the firms had > 1/3rd independent directors on the board and 47% of the firms had separate nonrelated persons for the role of Chairman and Managing Director. While the overall demographics is for 100 responses, the annual revenues and proportion of international trade has 95 respondents as there were 5 participating banks in the survey. As against annual revenues, data on their total assets was taken (>Rs.300,000 crores – 2; <Rs.100,000 crores – 3) was sought from the banks.

Cross-sectional analyses were performed by dividing the firms into two groups (e.g. High and low) over the median across their firm characteristics. For example, Institutional ownership measure was created and firms with Institutional shareholding greater than 25% are grouped as High while less than 25% are classified as Low. With respect to Ownership measure, listed firms are grouped as Public and unlisted firms as Private. The Governance measure was constructed using three components namely the number of women directors, independent directors, and if the role of the Chairman and MD/ CEO was combined or separate roles. Accordingly, a score of 0 or 1 was assigned

and a total governance score was computed. A score of 3 was coded as High Governance and others were assigned Low Governance. For the Industry measure, high-polluting industries such as manufacturing, oil, gas, mining, and energy are grouped together as Old Economy, whereas the less polluting firms such as technology, and services are grouped as New Economy. With respect to the Age measure, firms with age greater than 50years are grouped as Old, while age less than 50years are classified as Young. Regarding cross section analysis measure with respect of Firm Size, respondents with annual revenues less than Rs. 10,000 crores and assets less than Rs. 100,000 crores as considered as Small; whereas other respondents with revenues & assets above this specified threshold are classified as Large. Benchmarking reveals that the sample may not be entirely representative of start-ups or financially struggling businesses, but the variation in the firm characteristics allows to capture the major companies driving the Indian economy.

Section V - Sustainability Framework

Considering the academic literature (detailed above) and survey findings, below framework (Fig. 1) is developed to better understand the overall approach of sustainable practices of a firm to address the research questions on motivations to perform sustainable activities and provide disclosures.

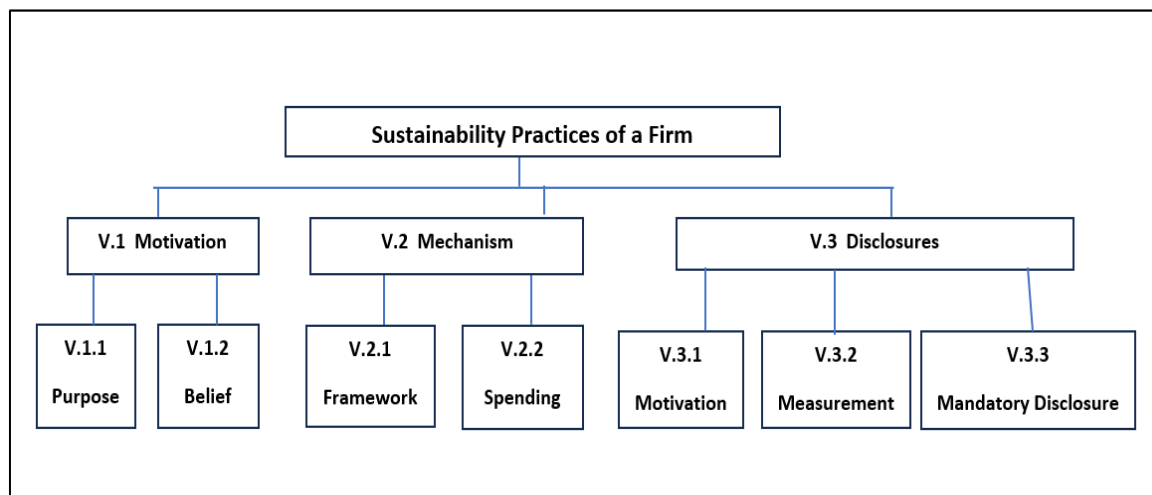


Figure 1

The approach towards sustainability practices of a firm can be segmented into three main sections entailing, underlying motivation, mechanism / implementation and communication through disclosures. Section V.1 of this paper focuses on the drivers of sustainability activities and examines why firms indulge in CSR/ESG activities and delves into the purpose of the firms. Section V.2 discusses the mechanism and implementation of sustainable activities. This helps to understand the CSR/ESG frameworks adopted by the firms and the channels through which the firms would like to spend their contribution. Section V.3 helps to gain insights into sustainability disclosures by understanding the motivation for adopting the CSR/ESG disclosures, the problems associated with their measurement, and the impact of the mandatory CSR/ESG disclosures. The cross-sectional analyses within each section will help to investigate how these results vary across the firm size, age, ownership, governance structure, and industry.

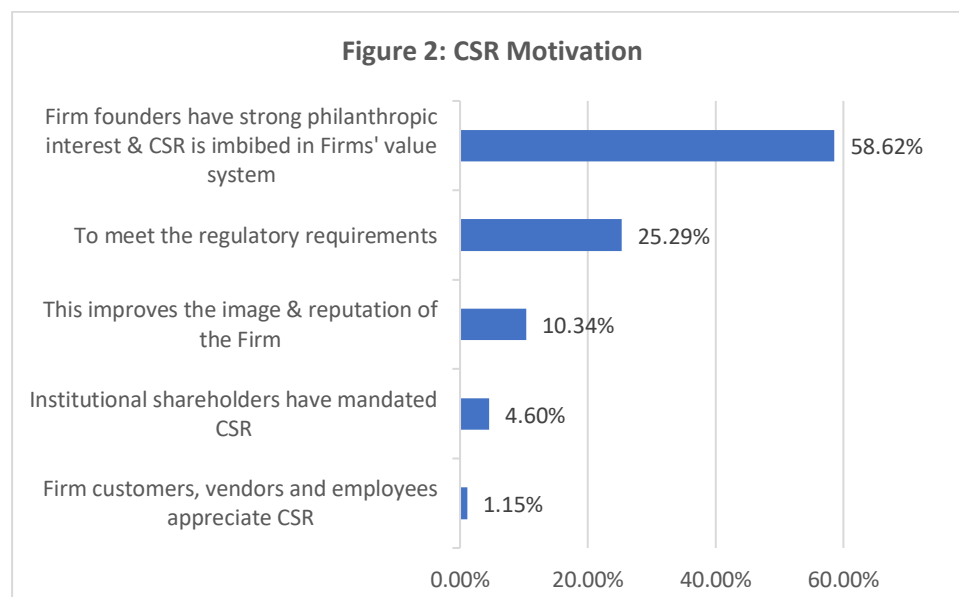
V.1. Motivation for Sustainable Activities

The extant literature provides many theories and perspectives to explain the motivations for a firm to adopt CSR/ESG practices. Some include ethical, political, integrative, and instrumental theories (Kim, Park, & Wier, 2012). The ethical theory suggests that it is an ethical obligation for the firm to be socially responsible as it is *“the right thing to do”*. These firms indulge in pro-social activities as it is their responsibility to do so. Political theories imply the role of the community where the firm is operating its business and the firm’s willingness to improve the community (Wang, Tong, Takeuchi, & George, 2016). These firms believe in giving back to the community as the firm is an integral part of the community. Their community embeddedness will drive them to conduct CSR/ESG activities. The integrative theory combines business needs with societal needs. This is consistent with the stakeholder theory where the business not only considers the interests of shareholders but also several other stakeholders who are substantially affected by the firm such as consumers, suppliers, employees, local communities, regulators, etc. (Freeman, 1984). The social, ethical, and environmental preferences of these stakeholders motivate and shape the CSR/ESG activities of the firm (Manchiraju & Rajagopal, 2017). Contrastingly, instrumental theories suggest that CSR/ESG activities are tools for wealth creation for shareholders. CSR/ESG activities are accepted only if they create wealth. This theory is consistent with the shareholder expense view. It originated from (Friedman M. , 1970) argument that *“the social responsibility of business is to increase its profits”*.

The research also provides empirical evidence for many benefits of adopting CSR/ESG practices. CSR/ESG activities provide a unique competitive advantage for the firms as they lead to acquiring valuable, rare, inimitable, non-substitutable firm resources (Hawn & Ioannou, 2016). The conservation of reputation for firms to keep up the implicit contracts acts as an insurance mechanism (Gao, Lisic, & Zhang, 2014) to mitigate adverse events (Deng, Kang, & Low, 2013).

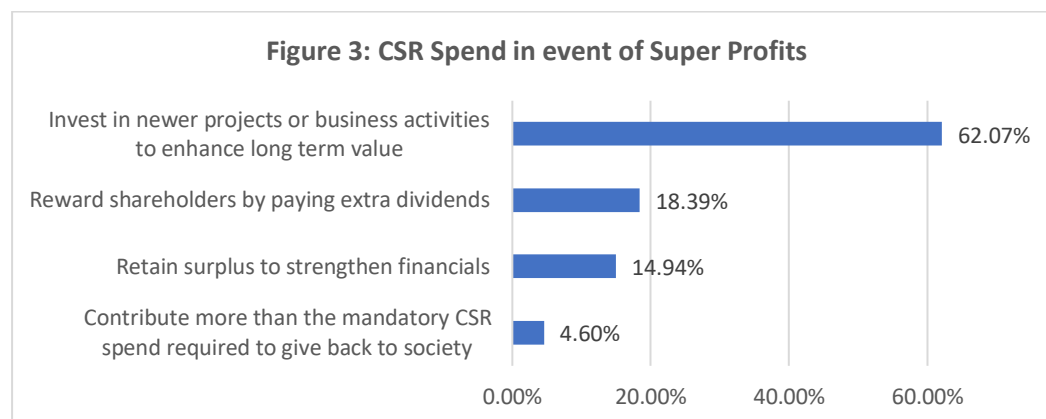
CSR/ESG activities provide product differentiation leading to pricing premiums, and higher employee satisfaction leading to the attraction and retention of employees and a broader clientele (Dimson, Karakas, & Li, 2015). Investment in enhancing environmental standards leads to a reduction in the perceived risk of the firm and signals better future performance of the firm. It has a positive correlation with ROA and profitability (Dowell, Hart, & Yeung, 2000). The firm that has more operational slack is more likely to engage in CSR/ESG projects signalling better future performance (Lys, Naughton, & Wang, 2015). Institutional investors are more attracted to firms with better environmental and social performance (Dyck, Lins, & Wagner, 2018).

To understand the motivations for performing the CSR/ESG activities (Fig. 2), the survey asked the respondents to rank in order of their preferences, why they would like to spend on CSR. Most of them preferred that the firm founders have strong philanthropic interest and CSR is imbibed in the firm's value system (58.62%). While some believed that they spent on CSR to meet regulatory requirements (25.29%). To improve image & reputation is also a motivating factor (10.34%) for firms to pursue CSR activities.



A senior business leader in the survey provided a comment on sustainability “we never approached it from a regulatory or cost perspective. To us, this was always a part of our DNA. And hence we are often puzzled to see the hype around it”.

It is also observed that firms showcasing strong philanthropic interest of founders as key reason of CSR/ESG spend are equally represented in proportion across the ownership profile of listed, unlisted MNC and unlisted Indian majority shareholding firms, thereby indicating no ownership bias. To obtain further insights into the intrinsic philanthropic interest of the firm, the survey sought information (Fig. 3) on whether the firms would make higher (than mandatory) CSR spend in event of super profits.



The above figure indicates that 77.01% of the firms indicated their top preference (rank 1) to reinvest or retain the surplus to strengthen financials & enhance long term value for all the stakeholders. The survey indicates openness by firms to spend more than the 2% mandatory CSR contribution required to give back to society as 19.54% of the firms ranked this as their top 2 choices. This observation is aligned with the actual action by firms, as about 50% of the Indian firms are spending more than their mandated 2% profits towards philanthropic activities as part of their CSR contribution (IDI, 2023), based on provided disclosures. This indicates firms are witnessing value in CSR and have evolved from a compliance focused activity to a problem-solving approach by aiming to integrate business and sustainability focus into CSR.

Upon performing the cross-sectional analysis (Table 2) of firms performing CSR to meet mandatory requirements, it is observed that smaller firms (Mean: 2.67), and firms with low governance (Mean: 2.58) tend to perform CSR to meet mandatory requirements compared to that of larger firms (Mean: 3.46) and firms with high governance (Mean 3.41).

Table 2: CSR Motivation - To meet the regulatory requirements			
	Small	Large	Difference (p-value)
Firm Size	2.67	3.46	0.79**
(N)	(58)	(28)	(0.021)
	Young	Old	Difference (p-value)
Firm Age	2.76	3.17	0.4
(N)	(52)	(34)	(0.214)
	Private	Public	Difference (p-value)
Ownership	2.85	3	0.142
(N)	(42)	(44)	(0.665)
	Low	High	Difference (p-value)
Institutional Ownership	2.69	3.3	0.604
(N)	(53)	(33)	(0.080)
	Low	High	Difference (p-value)
Governance	2.58	3.41	0.836**
(N)	(50)	(36)	(0.010)
	Old Economy	New Economy	Difference (p-value)
Industry	2.91	2.94	0.033
(N)	(47)	(39)	(0.918)

Significance levels: *(p<0.10), **(p<0.05), ***(p<0.01)

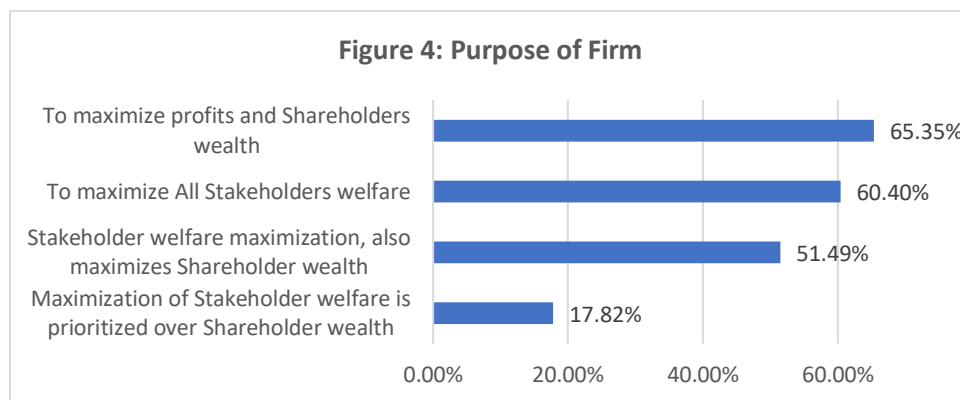
This study further investigates the purpose and beliefs of the organization which indirectly shape the motivation of the firm to perform CSR/ESG activities.

V.1.1 Purpose of the Organization

Several reasons to assume the purpose and mission of the organization are proposed in the literature. The motive of the firms' purpose ranges from value maximization of all stakeholders to maximizing only shareholders' wealth. CSR/ESG activities are viewed as value-enhancing mechanisms leading to the maximization of value for all stakeholders. On the other hand, it is also perceived as an expenditure diminishing shareholders' wealth. CSR/ESG activities can be value-destroying due to insider-initiated corporate philanthropy or agency problems related to managerial spending as the spending relies upon the discretion of the managers (Dimson, Karakas, & Li, 2015). However, well-governed firms can mitigate agency problems and engage more in CSR

(Ferrell, Liang, & Renneboog, 2016). The materiality of the issues taken by CSR/ESG activities is essential, as the firms with good ratings on material CSR issues outperform those with poor ratings (Khan, Serafeim, & Yoon, 2016).

The survey evidence reported in Fig. 4 indicates the respondents strongly agree on three prominent views on the purpose of the firm namely, maximizing profits and shareholders' wealth (65.35%), maximizing all stakeholders' welfare (60.4%), and stakeholder welfare maximization also maximizes shareholder wealth (51.49%). Only 17.82% of the respondents agreed with the view that maximization of stakeholder welfare is prioritized over shareholder wealth.



A business leader in the survey has commented that “Sustainability has no other alternative if an organization targets for wellbeing of stakeholders and a sustainable next generation”.

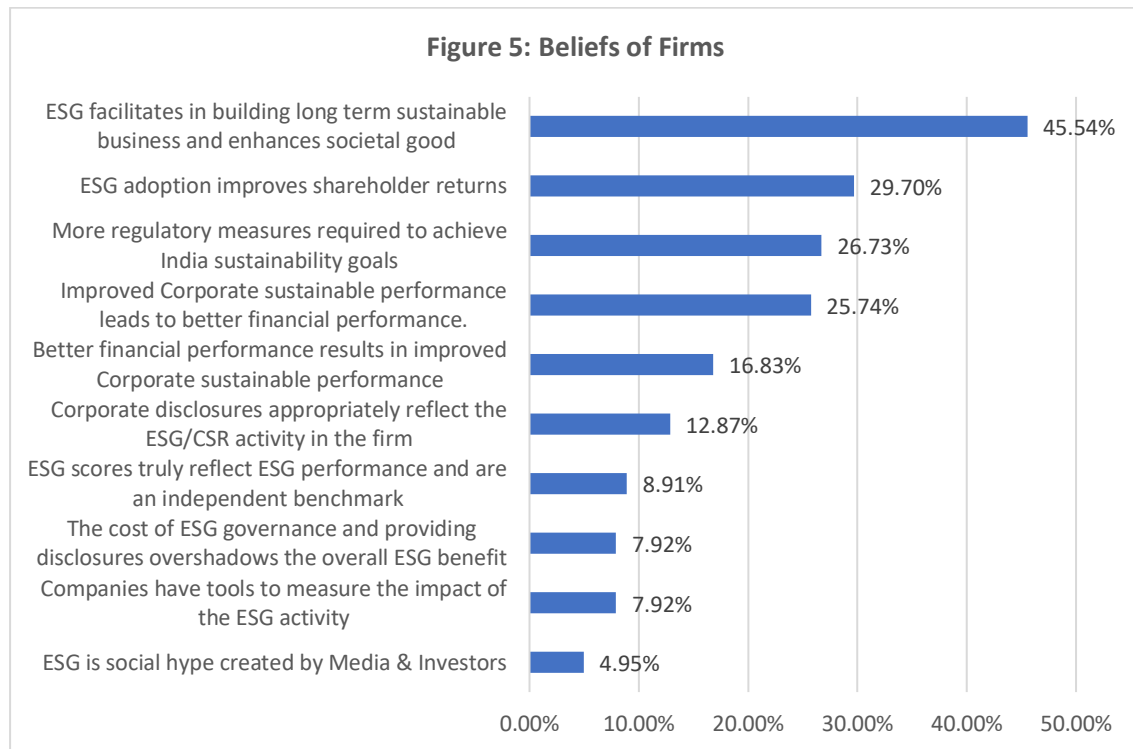
V.1.2 Beliefs

In addition to the purpose of the firm, the beliefs and culture of the firm play a significant role in shaping the motivations for CSR/ESG practices of the firm. The prior economic literature considers multiple degrees of altruism, greed, and reputational concerns to be determinants of prosocial behaviour (Gao, Lisic, & Zhang, 2014). CSR/ESG activities prevent unethical activities such as tax avoidance, and tax sheltering which can tarnish the reputation of the firms (Hoi, Wu, & Zhang, 2013) and provide long-term sustenance to the firm (Flammer, Hong, & Minor, 2019). Numerous studies provide empirical evidence that the financial performance and shareholder returns of the

firms are positively correlated to their CSR/ESG activities (Flammer, 2013). However, these results hold only when sustainability activities are implemented and operationalized appropriately focusing on the dimensions of CSR/ESG activities. This depicts the moderating effect of CSR/ESG activities on financial performance (Tang, Hull, & Rothenberg, 2012). As detailed in the literature review, ESG ratings have become a barometer for sustainability and are being used as an important parameter by institutional investors for their investment decisions. However, with various rating agencies having their unique methodology, there have been instances wherein a company has been rated differently by rating agencies. Lack of materiality, accuracy and reliability are key barriers in using ESG data (Jonsdottir, Sigurjonsson, Johannsdottir, & Wendt, 2022) and further studies indicated that ESG ratings reflect the ESG disclosures rather than the actual outcome (Grewal & Serafeim, 2020). There are also costs associated with measuring and disclosing CSR/ESG activities in the corporate disclosures (Christensen, Hail, & Leuz, 2021). Hence, I try to understand the beliefs of the firm to seek a practical perspective through the survey questionnaire.

The survey questionnaire presented different beliefs highlighted in the academic literature such as ESG being a hype created by media & investors, corporate disclosures appropriately reflect the CSR/ESG activities of the firm, companies have requisite tools to measure the impact of the CSR/ESG activities, increased CSR/ESG activities lead to better financial performance and the better financial performance results in increased sustainable performance, CSR/ESG activities facilitate in the long term sustenance and enhance societal good, improvement of shareholders' returns, the cost of CSR/ESG activities and its disclosure outweigh the benefits, more regulatory measures are required for sustainability goals in India. The Fig. 5 reveals that respondents strongly agree that CSR/ESG activities facilitate long-term sustenance and enhance the welfare of society (45.54%), improve shareholder returns (29.7%), and CSR/ESG activities enhance the financial performance of the firm (25.74%). The firms (26.73%) also disclose that more regulatory measures are required to

achieve India's sustainability goals. A business leader in the survey has commented that "Sustainability journey is the sole purpose for existence and longevity of a corporate house".



The fig. 5 also reveals that majority respondents strongly agree that ESG is not a mere social hype. It is also observed that more work needs to be done in the areas of benchmarking as limited firms strongly agreed on ESG scores truly reflecting ESG performance and availability of tools with firms to measure the impact of ESG activity. The above area of improvement becomes relevant with respect to need for more regulations.

V.2 Mechanism/ Implementation of sustainability activities

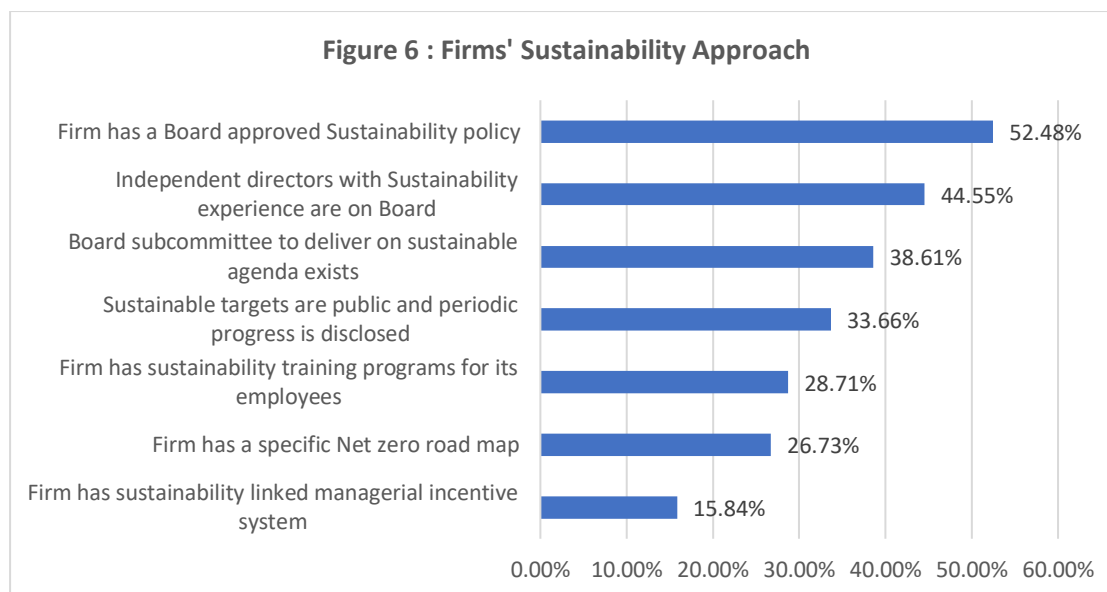
The understanding of the motivation to perform CSR/ESG activities leads to the most crucial question of how these activities are implemented in organizations such as the underlying internal frameworks facilitating these activities including operational challenges, changes in governance structures, etc. As the internal changes are implemented, identifying the areas where the CSR contribution needs to be made to achieve maximum impact becomes a major challenge. The below

two sub-sections delve deeper into the sustainability frameworks adopted by the firms to perform CSR/ESG activities and the spending outlets through which the CSR contributions are made.

V.2.1 CSR/ESG Framework

The firms undertake CSR/ESG activities through their operations in daily activities which involves overhauling existing practices and/or introducing many new practices. The internal practices include changes in core practices, norms, structures, and long-term investments to adapt to corporate practices and organizational culture. The external activities consist of obtaining media attention, organizational status, legitimacy, inter-organizational networks, and ties. These internal and external actions are communicated tactfully through the disclosures which result in the accumulation of social capital (Hawn & Ioannou, 2016). The transformation of internal practices is important while providing external credibility. Both internal and external practices need to be communicated tactfully. When external practices are more predominant over internal practices, it leads to greenwashing. However, when internal practices are more aggressive without many external practices, it leads to underselling the benefits of CSR/ESG practices.

The survey sheds light on the internal practices of the firm such as governance mechanisms to drive their sustainability outcomes. It includes a board-approved sustainability policy, appointment of independent directors, a subcommittee to deliver on the sustainable goals, publicly disclosing the sustainability targets and their progress, a carbon reduction road map, a managerial incentive system to imbibe sustainability and training programs for employees to enhance awareness and adoption. The respondents strongly agree that a board-approved sustainability policy (52.48%), independent directors with experience/qualifications in sustainability (44.55%), and a subcommittee to deliver a firm sustainable agenda (38.61%) as crucial frameworks to drive sustainability (Fig. 6).



Significant number of firms have indicated existence of board approved policy, creating awareness amongst employees and forming sustainability specific board subcommittee for driving sustainability. However, there exist gap towards linking managerial incentives with sustainability and creating firm net zero plans. Further, existence of an experienced independent director and women director on the board has been highlighted as an enabler for sustainability adoption (Post, Rahman, & McQuillen, 2015). The survey questionnaire reveals that out of the firms with existence of independent directors with experience on sustainability, about 95% respondents agree/strongly agree that ESG information is material to be considered for investment decision and ESG evaluation is firms' ethical responsibility to society. Business leaders in the survey have commented on sustainability that *"It needs to be driven by the shareholders and board rather than a statutory requirement to be truly meaningful. Paradoxically, the statutory requirement is essential for most firms to consider sustainability"* and *"I believe that regulatory push is good however the ethos has to come directly from the promoter to have a meaningful impact"*.

The cross-sectional analysis below in Table 3 explores further on the firm's approach towards developing ESG frameworks to drive sustainability and delves into the firm characteristics with respect to existence of a board approved policy (Table 3a) and firms' disclosures on sustainable targets & its periodic progress (Table 3b). Table 3a cross section analysis reveals that larger firms

(Mean 4.66) had a board-approved sustainability policy compared to that of smaller firms (Mean 4.05). Further, public listed firms (Mean 4.48) had a board-approved policy compared to firms with private firms (Mean 4.05). Similarly, firms with higher institutional ownership (Mean 4.52) have a board-approved policy compared to firms with low institutional ownership (Mean 4.09). Hence the size of the firm, public listing and extent of institutional shareholding influences existence of board approved policy towards effective adoption of sustainable framework.

Table 3: How has firm developed the ESG framework to drive Sustainability?						
Table 3a - Firm has a Board approved Sustainability policy				Table 3b - Firm has made its overall sustainable targets public and disclose progress on the same on periodic basis		
	Small	Large	Difference (p-value)	Small	Large	Difference (p-value)
Firm Size	4.05	4.66	0.606***	3.38	4.27	0.884***
(N)	(67)	(33)	(0.0006)	(33)	(67)	(0.0004)
	Young	Old	Difference (p-value)	Young	Old	Difference (p-value)
Firm Age	4.25	4.27	0.027	3.54	3.91	0.369
(N)	(64)	(36)	(0.894)	(64)	(36)	(0.160)
	Private	Public	Difference (p-value)	Private	Public	Difference (p-value)
Ownership	4.05	4.48	0.432	3.51	3.87	0.362
(N)	(53)	(47)	(0.023)	(53)	(47)	(0.146)
	Low	High	Difference (p-value)	Low	High	Difference (p-value)
Institutional Ownership	4.09	4.52	0.429**	3.43	4.07	0.64***
(N)	(62)	(38)	(0.021)	(62)	(38)	(0.007)
	Low	High	Difference (p-value)	Low	High	Difference (p-value)
Governance	4.11	4.48	0.372	3.52	3.92	0.398
(N)	(61)	(39)	(0.056)	(61)	(39)	(0.121)
	Old Economy	New Economy	Difference (p-value)	Old Economy	New Economy	Difference (p-value)
Industry	4.2	4.31	0.109	3.57	3.78	0.212
(N)	(49)	(51)	(0.579)	(49)	(51)	(0.393)

Significance levels: *(p<0.10), **(p<0.05), *** (p<0.01)

Further, Table 3b above reveals that larger firms (Mean:4.27) and firms with high institutional ownership (Mean 4.07) prefer to make their overall sustainability targets public and disclose progress periodically compared to that of smaller firms and firms with low institutional ownership. Hence, size of the firm and extent of institutional ownership influence the firms' approach to make its overall sustainability targets public and disclose progress on the same on periodic basis.

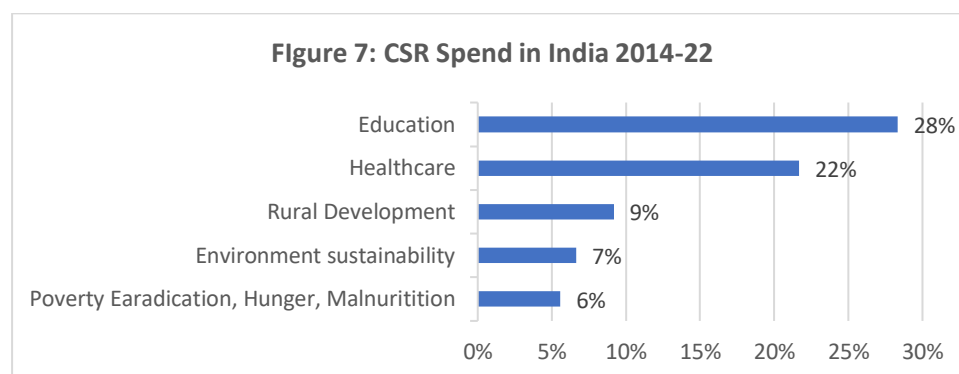
V.2.2 CSR/ESG spending outlets.

The extant literature classifies the CSR expenditure into two parts: the expenditure that is explained by economic factors which supports the hypothesis that CSR activities are an investment to the firm

leading to better financial performance. Another component that is unrelated to the economic activities which could be a deviation from the optimal CSR amount to signal better future performance (Lys, Naughton, & Wang, 2015). The economics-based understanding for disclosure of CSR activities results in a reduction of transaction costs with stakeholders and provides net benefits to the firm (Rajgopal & Tantri, 2023). The firm is viewed as a nexus of contracts between shareholders and stakeholders which provide valuable resources to the firm (Jensen & Meckling, 1979). The firms developing a reputation to keep up their implicit contracts leads to the acquisition of competitive advantage over their peers. Investors use CSR activity as a differentiating factor to make an investment choice between otherwise similar firms (Bagnoli & Watts, 2003). Therefore, stock markets respond to positive and negative news often in the same direction as the news in the disclosures (Flammer C. , 2013; Kruger, 2015).

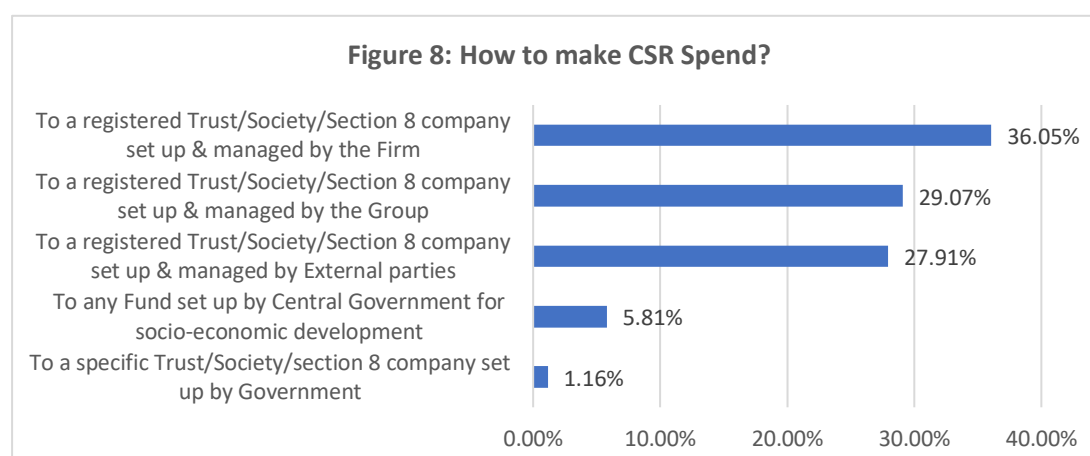
The empirical evidence on the relationship between CSR and the value of the firm is mixed. Some studies document a positive effect on financial performance while others find a negative association as detailed in literature review. However, In India, the Companies Act 2013 required firms with certain profitability, size, and net worth to mandatorily spend 2% of their net income on CSR activities (Manchiraju & Rajagopal, 2017). This implied mandatory CSR spending for the firms that crossed a particular specified threshold has created a level playing field for many firms. In the Indian context (Manchiraju & Rajagopal, 2017) list several areas in which CSR activities are undertaken such as community welfare, education, environment, healthcare, rural development, women empowerment, children's health, donations, disaster relief, sports, and support for the physically challenged. (Gatignon & Bode, 2020) in their study on CSR strategies under India's 2013 legal mandate find that most of the CSR projects are channelled towards two major causes: education and healthcare. The next tier of CSR activities emphasizes on rural development, eradicating hunger and poverty, and environmental sustainability. On analysing the Ministry of Corporate Affairs CSR portal along with (IDI, 2023) report, it is observed that in the eight years of

implementation of the CSR law, more than INR 1.53 Lakh Crore has been cumulatively spent by over 30,000+ companies since 2013. Further, the top five areas based on the above-mentioned total CSR spend in India is depicted (Fig 7) below.



Source : IDI - The state of CSR in India 2014-23, Data Guide 2023

To ensure effective monitorable CSR, the Act provides permissible modes of implementation of the mandatory spend to companies. The survey reveals (Fig. 8 below) that 36.05% firms prefer (ranked one) to contribute to a registered trust/society/section 8 company set up and managed by the firm, 29.07% firms prefer to contribute to specific trust/society/section 8 company set up & managed by the group, 27.91% firms prefer to contribute to a registered Trust/Society/Section 8 company set up & managed by External parties with an established track record. The remaining 6.98% firms contribute to specific causes/trusts established by state or central government.



The survey indicates that majority firms prefer to have control over their mandatory CSR spend and hence manage the same vide the registered trust/society/section 8 company, setup & managed by

the firm or group companies. A business leader in the survey has commented that *“Building a self-sustaining CSR Program, funded by the Firm, and executed by its own employees”*. This finding is in line with actual data observed on Corporate India (IDI, 2023), as only 2% of the firms contribute to specific causes/trusts established by state or central government and hence majority firms prefer to have an influence on their CSR spend.

Continuing on the journey of effective CSR, contributions to Incubators (institutes/organisations, engaged in research and development activity) is within permitted activities as per CSR Act, as these incubators can facilitate in developing newer business models with a potential to accelerate meeting socio, economic, environment objectives of CSR. The survey indicates that only 8.14% firms are fully prepared to include incubators as part of their mandatory spend and it is expected that this share would increase over time.

Table 4 cross section analysis below explores the influence of firm characteristics on CSR contribution to a Registered Trust/society /section 8 company set up and managed by the firm. From cross-sectional analysis, it is observed that the firms in the Old economy sectors (Mean 2.02) prefer to provide CSR contribution to a Registered Trust/society /section 8 company set up and managed by the firm over the firms in the New Economy.

Table 4: CSR Spend - To a registered Trust/Society/Section 8 company set up & managed by the firm			
	Small	Large	Difference (p-value)
Firm Size	2.39	2.1	0.289
(N)	(58)	(28)	(0.35)
	Young	Old	Difference (p-value)
Firm Age	2.28	2.32	0.035
(N)	(52)	(34)	(0.90)
	Private	Public	Difference (p-value)
Ownership	2.11	2.47	0.358
(N)	(42)	(44)	(0.22)
	Low	High	Difference (p-value)
Institutional Ownership	2.28	2.33	0.05
(N)	(53)	(33)	(0.86)
	Low	High	Difference (p-value)
Governance	2.32	2.27	0.04
(N)	(50)	(36)	(0.88)
	Old Economy	New Economy	Difference (p-value)
Industry	2.02	2.64	0.619**
(N)	(47)	(39)	(0.03)

Significance levels: *(p<0.10), **(p<0.05), ***(p<0.01)

V.3 CSR Disclosures

The main benefit of disclosures is to reduce informational asymmetry for users (e.g., investors, analysts, etc.) (Verrecchia, 2001) so that they can make better decisions by estimating future firm performance. Disclosures can facilitate the monitoring of managerial decision-making by analysts or institutional investors. However, sustainability reports differ in multiple ways compared to traditional financial disclosures. CSR/ESG reports are consumed by diverse stakeholders such as consumers, employees, and people from local communities, etc., and are used for several purposes other than financial analysis. As it caters to diverse users, it comprises a broad range of topics ranging from greenhouse gas emissions to policy changes. The CSR/ESG activities are expressed qualitatively and quantitatively but cannot be expressed in monetary terms (Kitzmueller & Shimshack, 2012). This results in discrepancies in measurement. The voluntary nature of sustainability reporting, the temporal dimensions of CSR/ESG activities, and involving externalities such as fringe stakeholders further deepens the complexities (Christensen, Hail, & Leuz, 2021). The lack of standardization creates heterogeneity within the CSR/ESG reports and makes them difficult to compare (Amel-zadeh & Serafeim, 2018). The proponents of mandatory CSR/ESG reports support a regulation to standardize the reports and make them comparable. However, there are costs associated with formulating, enforcing, and implementing these regulations (Christensen, Hail, & Leuz, 2018). In the following sections, I explore the motivation for firms to provide CSR/ESG disclosures, the problems pertaining to measurement e.g. which dimension (Environment, Social or Governance) is least difficult to measure versus most difficult to measure. Finally, I also discuss the potential impact of the regulatory required mandatory CSR/ESG disclosures.

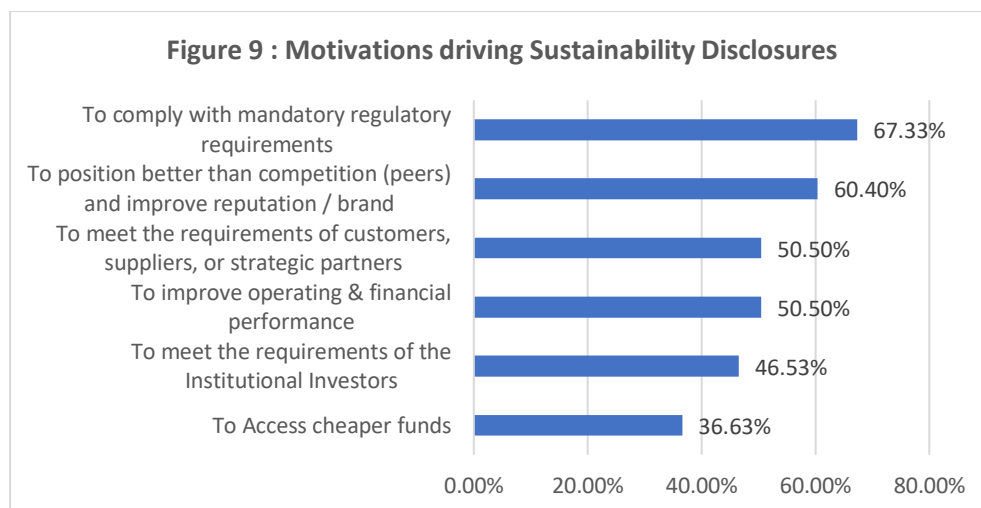
V.3.1 Motivation for Disclosures

Sustainability reports play a complementary role to financial disclosures in reducing informational asymmetry. They can also complement the financial disclosures by reducing the opacity of the forecasting accuracy (Dhaliwal, Li, Tsang, & Yang, 2011). The growing influence of global

corporations and increased scrutiny of the impact of organizations on society is leading to a rise in demand for transparency on the firm's activities. To provide legitimacy for the information, the firm should employ disclosure venues other than annual reports such as Webpages, annual reports, standalone CSR/ESG reports, etc. (Holder-Webb, Cohen, Nath, & Wood, 2009).

Determinants for CSR/ESG reporting include characteristics of the firm and its managers, business activities of the firm (polluting vs. non-polluting), stakeholder pressure, and regulatory requirements (Christensen, Hail, & Leuz, 2021). The internal transformation of the firm coupled with providing external credibility through CSR/ESG reports can provide positive outcomes for the firm (Hawn & Ioannou, 2016). The empirical evidence reveals that CSR/ESG information is value relevant and can affect firms' financial performance, lower the cost of equity capital, attract institutional investors, have positive long-term stock returns, increase post-merger performance, etc. (Deng, Kang, & Low, 2013).

To understand the motivations for CSR disclosures, I explicitly ask in the survey on what motivates firms to provide CSR disclosures. Fig. 9 below summarizes the results. 67.33% agree to provide CSR reports to meet mandatory regulatory requirements, 60.4% of the sample provide CSR disclosures to position better than competition (peers) and improve reputation / brand, 50.5 % provide CSR reports to improve operating & financial performance of the firm and also to meet the demands of the stakeholders like customers, suppliers, or strategic partners, 46.53 % provide CSR reports to meet the requirements of the Institutional Investors and 36.63 % provide CSR reports to access funds (debt / equity) at cheaper rate from sustainable investors/ lenders.



While the compliance with stakeholder (regulators, customers, suppliers, investors) requirements are significant motivating factors for driving sustainability; competitive dynamics, i.e. to be positioned better than peers also play a large role.

The cross-sectional analysis below in Table 5 explores the motivations of firm to provide sustainability disclosures. The cross-sectional analysis (Table 5a) reveals that there is a statistically significant difference between the firms that believed the motivation for CSR/ESG disclosure is to meet the requirements of the institutional investors (46.53%). The larger firms (Mean: 4.48) were more in agreement compared to smaller firms and the firms with greater institutional ownership (Mean:4.47) agreed that the motivation for CSR/ESG disclosures is to meet the requirement of institutional investors compared to that of firms with lower institutional ownership.

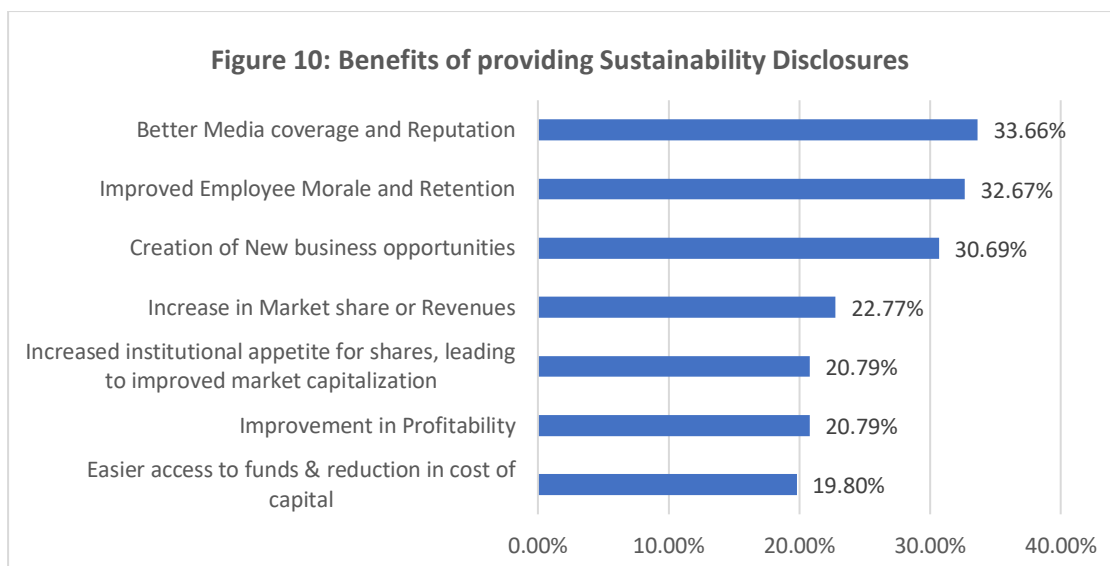
Table 5a - Requirements of Institutional shareholders				Table 5b - To Access funds (debt / equity) at cheaper rate from sustainable investors/ lenders		
	Small	Large	Difference (p-value)	Small	Large	Difference (p-value)
Firm Size	4.1	4.48	0.38**	3.88	3.93	0.058
(N)	(67)	(33)	(0.023)	(67)	(33)	(0.80)
Firm Age	Young	Old	Difference (p-value)	Young	Old	Difference (p-value)
(N)	4.26	4.16	0.09	3.79	4.08	0.286
	(64)	(36)	(0.59)	(64)	(36)	(0.1803)
Ownership	Private	Public	Difference (p-value)	Private	Public	Difference (p-value)
(N)	4.11	4.36	0.248	3.86	3.93	0.068
	(53)	(47)	(0.141)	(53)	(47)	(0.74)
Institutional Ownership	Low	High	Difference (p-value)	Low	High	Difference (p-value)
(N)	4.08	4.47	0.393**	3.85	3.97	0.118
	(62)	(38)	(0.0128)	(62)	(38)	(0.587)
Governance	Low	High	Difference (p-value)	Low	High	Difference (p-value)
(N)	4.18	4.37	0.127	4	3.74	0.256
	(61)	(39)	(0.45)	(61)	(39)	(0.22)
Industry	Old Economy	New Economy	Difference (p-value)	Old Economy	New Economy	Difference (p-value)
(N)	4.16	4.29	0.13	4.16	3.65	0.516**
	(49)	(51)	(0.447)	(49)	(51)	(0.0138)

Significance levels: *(p<0.10), **(p<0.05), ***(p<0.01)

Similarly, firms in the old economy sector agree strongly that the motivation for CSR disclosures is to access funds (debt/equity) at a cheaper rate from sustainable investors/lenders compared to that of New Economy (Table 5b). The overall acceptance rate for the motivation to access funds from a cheaper rate from sustainable investors or lenders is 36.63%.

To deepen the understanding on the motivation for sustainability disclosures, I also try to understand the benefits of the CSR/ESG disclosures. The positive effects of CSR/ESG disclosures include an increase in the value of the firm, a reduction of litigation costs, attracting institutional investors and analysts (Dhaliwal, Li, Tsang, & Yang, 2011), estimating the future cashflows, investment decisions, lowering of the cost of capital, etc. (Easley & O'Hara, 2005). However, there are also direct costs associated with gathering, analysing, and publishing information (Luo, Wang, & Zhang, 2017), and indirect costs like proprietary costs due to releasing sensitive information to multiple audiences like competitors, suppliers, and labor unions (Christensen, Hail, & Leuz, 2021). Another risk associated with CSR/ESG reporting is a lack of consistency between internal practices and external communication which can be detrimental to the market value.

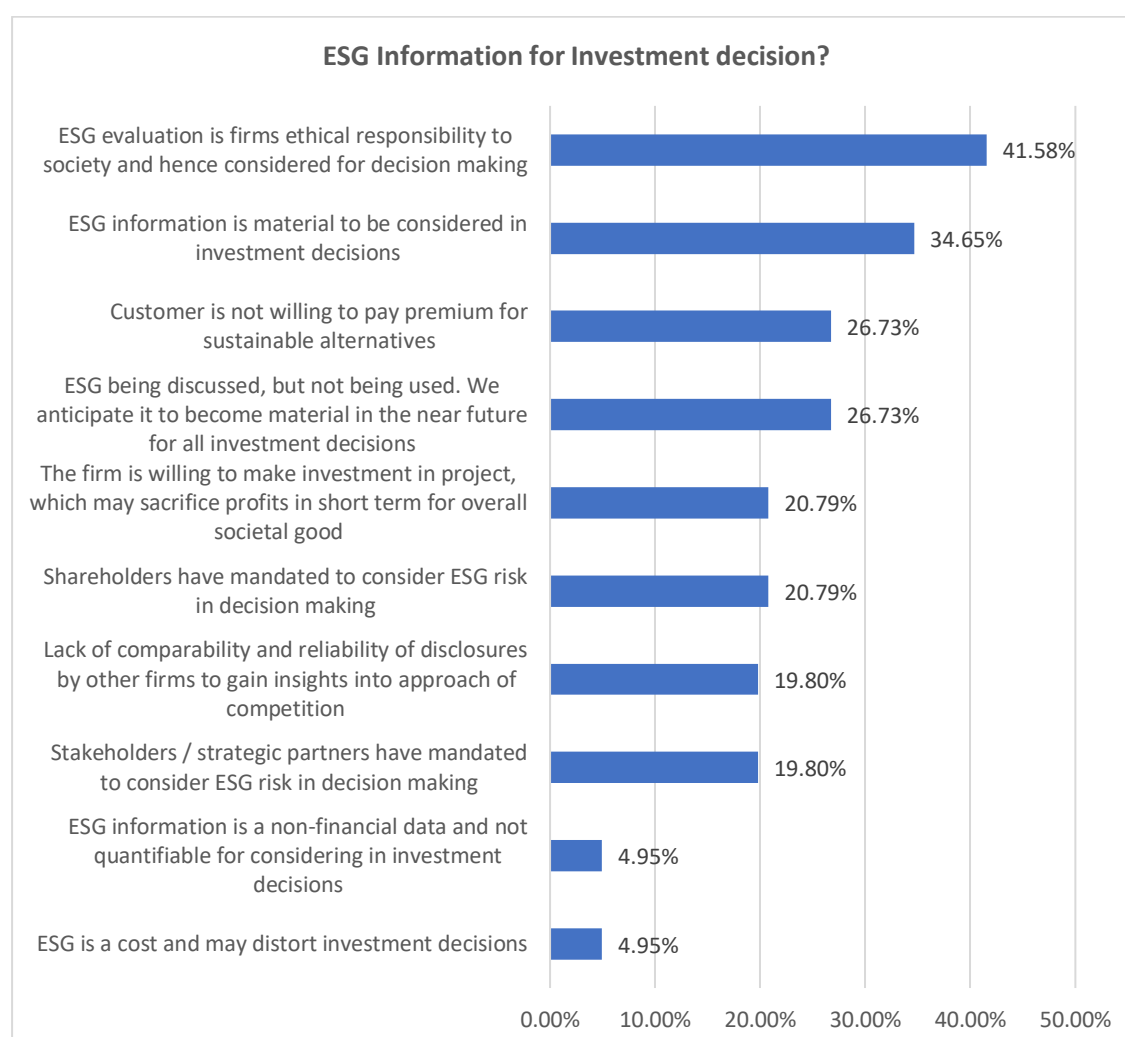
To gain insights into the benefits of CSR disclosure, the survey questionnaire asks the respondents how their firms have benefitted by providing CSR disclosures (Fig. 10). The spread of the benefits is large varying across better media coverage and reputation (33.33%), improved employee morale and retention (32.67%), creation of new business opportunities (30.69%), increase in market share or revenues (22.77%), increased institutional investors' appetite for company shares and improvement in profitability (20.79%).



The results indicate that motivation to provide sustainability disclosures and benefits derived from the same by firms are aligned with respect to improving competitive advantage (media coverage, reputation etc). However, these results hold only when CSR/ESG activities are implemented and operationalized appropriately focusing on the dimensions of CSR activities. A robust operationalization of sustainability framework leads to creation of new business opportunities, as reported by 30.69% of the firms. On further analysis of the firms which have indicated creation of new business opportunities; 91% had board approved sustainability policy and 78% had developed training programs for its employees to enhance sustainability awareness and adoption. This alludes that involvement of organization board and employees in imbining sustainability may create more opportunities.

I further asked in the survey, if firms are considering CSR/ESG information for making investment decisions (Fig. 11). 41.58% strongly agree that CSR/ESG evaluation is a firm's ethical responsibility to society and hence, considered for decision-making, 34.65% strongly agree that CSR/ESG information is material to be considered in investment decisions. However, 26.73% indicate that customer don't pay premium for sustainable alternatives and also that CSR/ESG is being discussed, but not being used and they anticipate it to be considered in the near future for all investment

decisions. A business leader in the survey has commented that *“project viability and sustainability have to converge to be a unified goal, over a period of time”*.



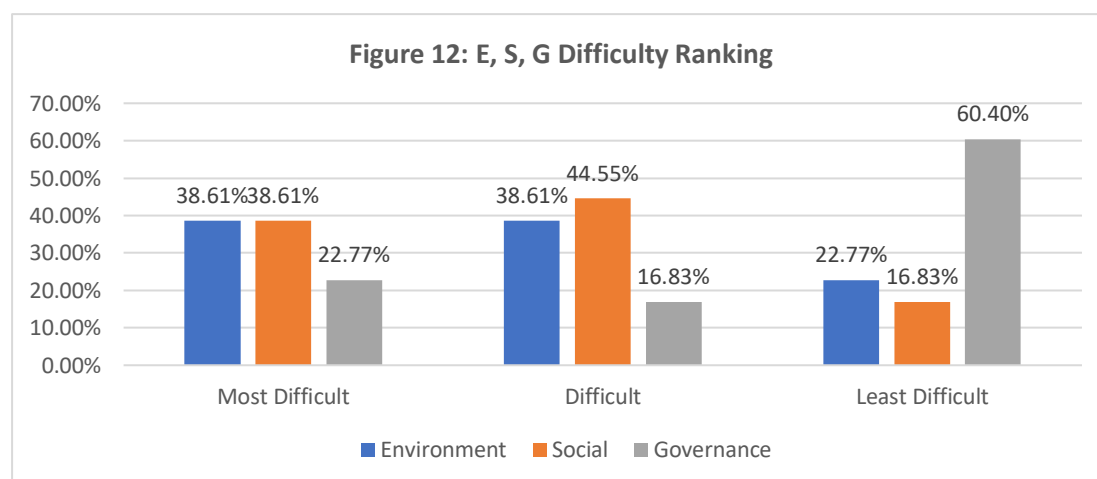
Interestingly 20.79% of the respondents indicate their firms are willing to sacrifice profits in short term for overall societal good and of these 55% are listed entities and 85% having sponsor shareholding more than 25%.

V.3.2 Measurement Problems

The disclosures are often known to be repetitive, have boilerplate information, and high fog index. CSR/ESG reports pose further challenges due to the diversity in users, and topics discussed and yield to heterogeneity in the reports (Christensen, Hail, & Leuz, 2018). They are still in their nascent stage compared to financial reporting. More importantly, the disclosures being voluntary, the firms

engaged can selectively pick the topics they wish to disclose. The divergence and noncomparability between sustainability rating agencies amplify the ambiguity posing questions on “*theorization*” (what to measure) and “*commensurability*” (whether it is consistently measured). The common rating agencies are KLD, Sustainalytics, Moody’s ESG, S&P Global (RobecoSAM), Refinitiv (Asset4), and MSCI (Berg, Kolbel, & Rigobon, 2022). Within the rating agencies, there is divergence based on scope (activities considered), measurement (use of several indicators), and weight (relative importance given to the activities considered). A survey respondent commented that “*more awareness in terms of knowledge sharing and activities sharing needs to be there for general public in order to expand the network on sustainability*”.

Vide the survey, respondents were asked to rank environment, social, and governance in the order of least difficult to most difficult in measuring, developing, implementing, and reporting (Fig.12). 60.40% of the respondents find that governance is the least difficult and 38.61% find that environment and social dimensions are most difficult.



The cross-sectional analysis (Table 6 below) reveals that public firms (mean:1.57) and firms in Old economy industries (mean 1.61) consider social dimension difficult to measure, develop, implement and report compared to that of private firms and firms in New economy industries respectively.

Table 6: Difficulty to measure, implementing & report on Social (S) aspects

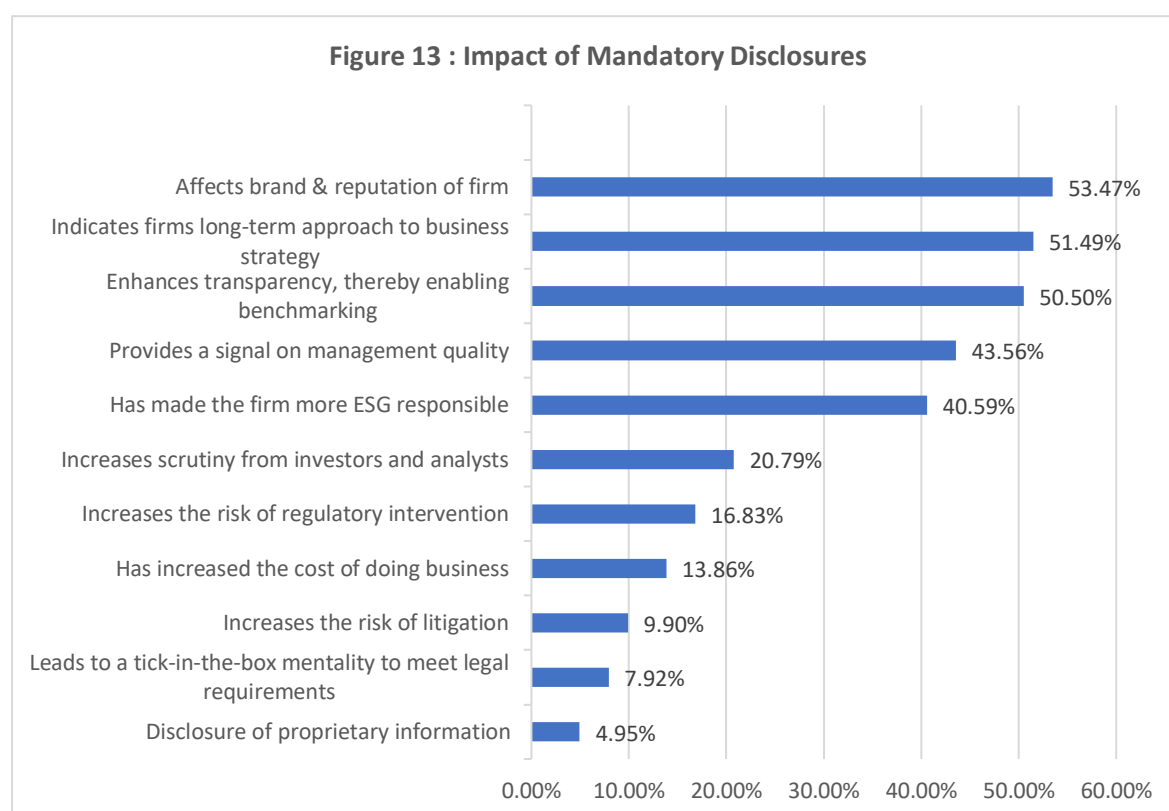
	Small	Large	Difference (p-value)
Firm Size	1.82	1.69	0.12
(N)	(67)	(33)	(0.39)
	Young	Old	Difference (p-value)
Firm Age	1.79	1.75	0.046
(N)	(64)	(36)	(0.75)
	Private	Public	Difference (p-value)
Ownership	1.96	1.57	0.38***
(N)	(53)	(47)	(0.005)
	Low	High	Difference (p-value)
Institutional Ownership	1.8	1.73	0.06
(N)	(62)	(38)	(0.63)
	Low	High	Difference (p-value)
Governance	1.86	1.64	0.227
(N)	(61)	(39)	(0.1140)
	Old Economy	New Economy	Difference (p-value)
Industry	1.61	1.94	0.32**
(N)	(49)	(51)	(0.0216)

Significance levels: *(p<0.10), **(p<0.05), ***(p<0.01)

V.3.3 Mandatory Disclosures

Mandatory CSR/ESG disclosures have several effects on organizations. The increased standardization can make the reports more credible and make the firms more transparent. Standardizing the reports can make them less costly and make comparisons between the firms easier. On the other hand, regulatory requirements can also make reports in a boilerplate format which can result in implementing a checkbox type of approach towards CSR/ESG. It can also provide opportunities to upsell their positive CSR/ESG initiatives while hiding negatives resulting in greenwashing (Christensen, Hail, & Leuz, 2021). Also, prior literature confirms that differences in reporting can persist even when firms use the same reporting standards (Ball, Robin, & Wu, 2003). (Luo, Wang, & Zhang, 2017) document the effect of mandatory CSR reporting in China and find that the regulation has resulted in early adoption of CSR reports, however, diminishing the quality of reports. In the context of India, (Rajgopal & Tantri, 2023) find that regulatory intervention in CSR activities diminishes its signalling value and leads to a reduction in voluntary CSR spending. (Manchiraju & Rajgopal, 2017) captures the initial shareholder's reaction after the companies act, 2013 in India which requires selective firms to spend 2% of their profits on CSR activities. This resulted in a 4.1% drop in share price for the firms which were affected by the regulation.

In the survey, I sought firms' inputs on the potential impact due to regulatory requirements for mandatory CSR disclosures. Fig. 13 below indicates that firms strongly agree that mandatory disclosures affect the brand and reputation of the firm (53.47%), indicates firm's long-term approach to business strategy (51.49%), enhances the transparency of sustainability activities (50.5%) thereby enabling firms to benchmark with industry, has made the firm more responsible (40.59%) and provides a signal on management quality (43.56%). However, as these disclosures require additional data collation & measurement, this increases the scrutiny from investors and analyst (20.79%). Some firms indicate that mandatory disclosures have increased the cost of doing business (13.86%) and lead to tick in the box mentality to meet legal requirements (7.92%).



A business leader in the survey has commented that *“ESG in different forms has always been part of Companies' agenda. The ESG mandate has merely compelled firms to 'formally' adopt a model, assign metrics, monitor performance, and disclose publicly. overall, a good thing. short term, it is a 'cost' like 'quality' once was. eventually, it becomes a positive contributor, and helps improve the*

world for future generations. Too much forced regulatory pressures will cause incorrect reporting, misuse, and abuse by regulatory agencies as well. this therefore has to be modulated. Overall, a good 'direction' !!".

The cross-sectional analysis below in Table 7 explores further on the potential impact of mandatory sustainability disclosures on firms and delves into the firm characteristics with respect to effect on brand & reputation (Table 7a) and indicating firms long term approach to business strategy (Table 7b). The cross-sectional analysis reveals that large firms (Mean:4.78), Public firms (Mean: 4.59), firms with high institutional ownership (Mean: 4.57), and firms with high governance (Mean 4.66) believe that mandatory CSR disclosures affect the brand and reputation of the firm compared to that of small, private, firms with low institutional ownership and governance respectively. Furthermore, large firms (Mean:4.6), firms with high institutional ownership (Mean:4.65) and governance (Mean: 4.61) agree that mandatory CSR disclosures indicate the long-term approach to business strategy.

Table 7 : Impact of regulatory-required mandatory ESG/CSR disclosures						
Table 7a - Affects brand & reputation of firm				Table 7b - Indicates firms' long-term approach to business strategy		
	Small	Large	Difference (p-value)	Small	Large	Difference (p-value)
Firm Size	4.13	4.78	0.65***	4.25	4.6	0.35**
(N)	(67)	(33)	(0.001)	(67)	(33)	(0.0148)
	Young	Old	Difference (p-value)	Young	Old	Difference (p-value)
Firm Age	4.25	4.52	0.2777	4.29	4.5	0.2
(N)	(64)	(36)	(0.097)	(64)	(36)	(0.1664)
	Private	Public	Difference (p-value)	Private	Public	Difference (p-value)
Ownership	4.13	4.59	0.436***	4.26	4.48	0.225
(N)	(53)	(47)	(0.0045)	(53)	(47)	(0.1220)
	Low	High	Difference (p-value)	Low	High	Difference (p-value)
Institutional Ownership	4.21	4.57	0.37**	4.19	4.65	0.4643***
(N)	(62)	(38)	(0.0165)	(62)	(38)	(0.0007)
	Low	High	Difference (p-value)	Low	High	Difference (p-value)
Governance	4.15	4.66	0.519***	4.21	4.61	0.402***
(N)	(61)	(39)	(0.0008)	(61)	(39)	(0.0042)
	Old Economy	New Economy	Difference (p-value)	Old Economy	New Economy	Difference (p-value)
Industry	4.26	4.43	0.166	4.22	4.5	0.285
(N)	(49)	(51)	(0.3314)	(49)	(51)	(0.0513)

Significance levels: *(p<0.10), **(p<0.05), ***(p<0.01)

Section VI - Discussions & Conclusion

This paper documents the insights from senior Indian professionals involved in firms' sustainability activities. The study specifically asks about the motivation of sustainability activities including the purpose of the firm and the beliefs, mechanism/ implementation of CSR/ESG activities comprising of a framework for CSR/ESG activities, spending outlets, motivations for providing disclosures, measurement issues, and effect of regulation on the disclosures.

The study finds that firms are motivated to do CSR/ESG activities as the firm founders have strong philanthropic interests and CSR/ESG is imbibed in the firm's value system. Small firms and firms with low governance tend to perform CSR/ESG activities to meet mandatory requirements. When asked how the firms have developed their ESG framework, 52.48% of the sample firms agreed that their firms had a board-approved sustainability policy. Large size firms, public listed firms and firms with high institutional ownership had board-approved sustainability policy compared to the small, private and firms with low institutional ownership. It is also observed that large and firms with high institutional ownership prefer to make their overall sustainability targets public and disclose progress periodically. With respect to CSR spending outlets, the firms prefer to have control over their mandatory CSR spend and manage the same vide the registered trust/ society/section 8 company set up and managed by the firm or group companies.

While investigating the motivation to provide sustainability disclosures, 67.33 % agreed to provide disclosure to comply with mandatory requirements. The study finds that firms are motivated to provide CSR disclosures for stakeholder engagement, to gain competitive advantage, and to improve the operating & financial performance of the firm. The outcomes of these disclosures include improved media coverage, reputation, employee retention, and the creation of new business opportunities. Large firms, firms with high institutional ownership agreed that motivation of CSR/ESG disclosures is to meet the requirements of institutional investors. The research also

observes that Old economy sector strongly agree that the motivation for CSR disclosures is to access funds at a cheaper rate.

The study also finds that the potential impact of the mandatory sustainability disclosures affects the brand & reputation of the firm and indicates firms' long-term commitment to strategy. Large, public firms, and firms with high institutional ownership and high governance believe that mandatory CSR/ESG disclosures affect the brand & reputation of the firm. On a similar note, Large, firms with high institutional ownership and high governance believe that the mandatory CSR/ESG disclosures indicate the firm's long-term approach to business strategy.

To complement the existing academic , this study has proposed a sustainability framework, wherein effective sustainable practices of the firm are influenced by its underlying motivation, mechanism adopted, and disclosures provided. The study also maps the sustainability practices insights from the survey with academic research.

- Firms are motivated to give ESG/CSR disclosures for stakeholder engagement, competitive positioning, and to improve their financial performance - (consistent).
- Outcomes of ESG/CSR disclosures: improved media coverage, reputation, employee retention, and creation of new business opportunities - (consistent).
- Firms perceive ESG/CSR as an ethical responsibility and consider it for decision making - (consistent).
- Firms are willing to contribute more than required mandatory spending - (inconsistent).
- Firms prefer to control the CSR spent and donates the same to a trust, or a company set up by the firm or group entity (consistent).

- While disclosures have increased the cost of doing business (consistent) and tools to measure ESG/CSR activity needs improvement (consistent); they provide a signal on management quality (consistent) and have made the firm more socially responsible - (consistent).
- ESG/CSR activities have led to creation of new business activities - (consistent).
- The size of the firm, its governance approach and ownership type influence the sustainability activities and the disclosures - (consistent).
- Regulations on mandatory disclosures and CSR spent has made the firm more socially responsible - (consistent).

Overall, this study documents that sustainability activities facilitate long term business potential, and firms are motivated to provide sustainability disclosures for stakeholder engagement, to gain competitive advantage, and to improve their financial & operating performance. The outcome of these measures includes improved media coverage, reputation, employee retention and creation of new business opportunities. The study also indicates that size of the firm, its governance approach, ownership and industry type influence the sustainability activities and the disclosures. Additionally, the study observes a gap in the level of awareness on sustainability measurement tools and the need for more regulatory measures to meet the sustainability goals.

The survey evidence contributes to literature, practitioners, and policymakers in the following ways. Firstly, it establishes schematized facts on CSR/ESG activities and disclosures. Secondly, the study validates the academic theories encompassing these themes. The study follows to offer a new explanation for these themes which haven't received much attention in academic literature. Thirdly, the study identifies simple heuristics that showcase the process of how executives make decisions related to CSR/ESG activities and disclosures. Finally, through cross-sectional analysis, the research establishes the results across the variation of the firm characteristics.

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Appendix A

Additional perspective on sustainability shared by respondents.

Following is the extract of free text comments provided by few participants in their survey responses.

- More Awareness in terms of knowledge sharing and activities sharing needs to be there for general public in order to expand the network on sustainability.
- We never approached it from a regulatory or cost perspective. To us, this was always a part of our DNA. And hence we are often puzzled to see the hype around it.
- ESG in different forms has always been part of Companies' agenda. The ESG mandate has merely compelled firms to 'formally' adopt a model, assign metrics, monitor performance, and disclose publicly. overall, a good thing. short term, it is a 'cost' like 'quality' once was. eventually, it becomes a positive contributor, and helps improve the world for future generations. Too much forced regulatory pressures will cause incorrect reporting, misuse, and abuse by regulatory agencies as well. this therefore has to be modulated. Overall, a good 'direction' !!
- It is part of our DNA.
- Sustainability has no other alternative if an organization targets for wellbeing of stakeholders and a sustainable next generation.
- There is a significant global agenda on sustainability in our organization.
- Project viability and sustainability have to converge to be a unified goal, over a period of time.
- Building a self-sustaining CSR Program, funded by the Firm, and executed by its own employees.
- Corporates need to focus more on this important area and the monitoring mechanism has to be more robust.
- We need legislations to ensure ESG, CSR and HSSE
- A bigger sense of ownership will help the sustainability initiative !!!
- People, planet and profit
- Inter- national joint funding of green tech and making it available to poorer nations without cost, is a must. The first bans coal and burns gas itself is a hypocrisy, we can ill afford.
- I believe that regulatory push is good however the ethos has to come directly from the promoter to have a meaningful impact.
- Sustainability Journey is the sole purpose for existence and longevity of a corporate house.

- It needs to be driven by the Shareholders and Board rather than a statutory requirement to be truly meaningful. Paradoxically, the statutory requirement is essential for most firms to consider sustainability.

Essence

Sustainability is a global agenda and is part of strategic agenda for Indian corporates. The CSR/ESG regulations are essential and have helped in unifying the strive towards sustainability; however, the onus to drive sustainability is with shareholders and board. More awareness on the intricacies of sustainability would provide to the overall objective of imbibing sustainability.

Appendix B

Survey Questionnaire