IJRAR.ORG E-ISSN: 2348-1269, P-ISSN: 2349-5138

INTERNATIONAL JOURNAL OF RESEARCH AND ANALYTICAL REVIEWS (IJRAR) | IJRAR.ORG

An International Open Access, Peer-reviewed, Refereed Journal

ESG: A way to combating Greenwashing and build a more ethical portfolio

CS Sachin Sarda
Company Secretary

Abstract

Participants, regulators, controllers and other stakeholders of Capital market demanding transparent dimension and exposure of financially applicable Environmental, Social and Governance (ESG) pitfalls. The divergent approaches and pretensions of sustainability norms and fabrics hang adding greenwashing, which encompasses a variety of conditioning that exaggerate and misrepresent "green" credentials. Traditional financial reporting is regulated, commanded, and needed to meet qualitative characteristics; Applicability, trustability, community, felicitousness and impenetrability. still, ESG reporting is problematic as the quality of reporting doesn't meet the criteria. ESG reporting is limited in utmost corridor of theworld.A comprehensive frame is demanded to avoid fragmentation, insure better community and translucency and reduce the complexity of ESG information, which could reduce the threat of so- called ESG information.

Keywords: ESG, Green washing

Introduction

Our world faces a number of global challenges climate change, transition from a direct to a indirect frugality, growing inequalities, balancing profitable and social requirements. Investors, controllers, consumers and workers are decreasingly demanding that companies not only duly manage capital, but also natural and social capital, and have the necessary governance fabrics in place to do so. further and further investors are considering rudiments of ESG in their investment decision- making process, making ESG more important from a capital protection perspective, in both debt and equity. An ESG reporting frame is essential to erecting a sustainable business ecosystem that ensures unborn adaptability. Might also baffle the growing trend of greenwashing (the use of marketing tools and narratives to present a brand, its products or services, company or programs as environmentally friendly when they're not) from the growing demand for products and robust services tocapitalize.Anyone who uses ESG or sustainability just as a marketing tool is in trouble as further and further people, from investors to workers to guests, are realizing the significance of sustainability and the impact of global business on sustainability and commercial governance. ESG- terrain, Society and Governance- describes the areas that characterize a sustainable, responsible or ethical investment. ESG is the acronym for Environmental Social and Governance and refers to three crucial factors for measuring the sustainability and ethical impact of an investment in a company or business. adding demands in thenon-financial reporting assiduity have created a critical need for increased responsibility and translucency to meet stakeholder demands,e.g., terrain, workers and society. Governance, mindfulness and strategy on ESG issues are no longer enough; enterprises need to acclimatize their value creation and wealth creation conditioning by internalizing the advanced social and environmental costs. In general, fiscal counsels, private investors or distributors of fiscal products concentrate on profitable businesses. still, the company is now seeking to mate with companies that are taking way to concentrate on operating manufacturing installations in an environmentally responsible manner and separating growth from its impact on the terrain.

Greenwashing

Itis the process of giving a false print or deceiving information about how environmentally friendly a company's products are. Greenwashing makes unwarranted claims to trick consumers into believing that a company's products are environmentally friendly or have a lesser positive impact on the terrain than they actually are. also, greenwashing can do when a company tries to emphasize the sustainability aspects of a product to overshadow its involvement in conditioning that harm the terrain. Made possible through the use of environmental imagery, misleading markers, and retired trade- offs, bleaching is a pun on the term" bleaching," meaning the purposeful use of misinformation. conceal misconduct, excrescencies, or unwelcome situations. look lower bad than okay.

Key Points to flash back

Greenwashing is a trouble to subsidize on the growing demand for environmentally friendly products.

• Greenwashing can give the false print that a company or its products are environmentally conscious or environmentally friendly.

• Critics have indicted some companies of greenwashing to subsidize on the socially responsible investment movement or the terrain, society and governance(ESG).

• Truly green products or companies back up their claims with data and details.

• Greenwashing is a term generally used to relate to deceptive advertising and marketing tactics intended to mislead stakeholders into believing that a particular product is environmentally friendly.

• One of the main motives of greenwashing is to confuse the public and manipulate public opinion to impact the consumer request.

• presently, the public counterreaction against the boycott is helping to bring it under control kindly strong social responsibility and a triplex system have been proposed as ways to combat greenwashing.

Greenwashing refers to" making products, conditioning, or programs appear to be more environmentally friendly or less dangerous to the terrain than they actually are," according to the Merriam- Webster Dictionary, one of the many. The oldest English wordbook, lately included" greenwashing"" as a new word in the wordbook. There are basically two actions the first is to remove negative information related to one's environmental performance. a product/ exertion/ policy; and two, telling positive environmental performanceinformation.Another description of greenwashing also adds that the term can describe the conditioning of companies. invest further time and plutocrat in selling their products as" green" than in actually making sure those products are truly durable.

This term is frequently used to relate to marketing tactics. Deceptive marketing and advertising are used by some companies to mislead stakeholders into believing that a particular product is environmentally friendly. In green light, claims about" green" products tend to beover-exaggerated or in some cases fullybaseless.

The ESG has come an important consideration for some investors. This has led numerous companies to concentrate on getting more environmentally friendly by reducing waste, reducing emigrations, recycling and using renewable energy, among other sweats. still, some companies may rather take lanes and pretend they are doing these effects for favor when they are not. Greenwashing is an unethical practice that can mislead investors.

Literature Review

Sustainable development was first defined by World Commission on Environment and Development as development that meets "the needs of the present without compromising the ability of future generations to meet their own need" in 1987 and enterprises should understand how corporate sustainability is constructed in a specific context and how the concept of sustainable development can be applied to the business level and what enterprises should do when they want to became sustainable.

Corporate social reporting has been the subject of substantial academic accounting research for several decades its implications have also been proved with positively correlated with the financial performance.

The current practice to report sustainability performance for most organisations are to publish a sustainability report, either in conjunction with, or separately from, the company's annual report but the sustainability reports are not often integrated with conventional economic reports, tend to focus on the positive information, and focus on descriptive outcomes.

The pressure for corporate accountability is increasing. More companies are voluntarily to produce ESG report in addition to its financial reports in order to provide more relevant information to assess its financial and non-financial performance.

Recently, there is an increasing demand for integrated reporting which companies are required to publish a report to contain both sustainability and financial statements in order to reduce agency costs, political costs and information asymmetries and integrated reporting provides a broader explanation of performance.

The Social and Environmental Accounting (SEA) literature provides a range of views and arguments on and around the importance of corporations adhering to ESG expectations of the communities within which they operate but seldom of these consider the motivations behind corporate environmental reporting, deterrence and avoidance of civil regulatory action is proposed as an alternate motivation for such reporting, and an area for future research.

ESG reporting influences both financial and environmental performance of a company. Weber analyses the ESG reporting of China Top 100 Green Companies and concludes that good ESG reporting contributes better financial returns and improvement of corporate environmental performance. Chen, Feldman, & Tang indicate that the categories of Human Rights, Society as well as Product responsibility display a significant and positive correlation with the return on equity.

One of the key issues is how to assess the quality of ESG reports. Currently there are many international institutions such as Global Reporting Initiative (GRI), United Nations Conference on Trade and Development (UNCTAD), The European Federation of Financial Analysts Societies (EFFAS) and regulatory bodies such as Hong Kong Stock Exchange (HKEx) develop the Key Performance Indicators (KPIs) for ESG reporting. Different organizations including United Nations, G20, OECD, European Union, and different countries such as Netherlands, France, Germany, United Kingdom, India, Japan, Philippines, and Vietnam etc. initiate the disclosure of ESG information in reporting. This creates the problems of lack of consensus, and companies may select indicators which only provide positive and favorable results. Therefore, it is important to establish a unique set of ESG key performance indicators to support investors' decisions. Such KPIs creating a reliable method of measuring the performance of ESG, where the effect of more complex factors can be considered a prerequisite for success not only in decisions, but also with regard to corporate management, possibility for comparison, competitiveness of companies, etc. by address ESG problems and corporate governance in relation to the measurement of business performance, as well as its continued success (sustainability success). Ondoro suggests the use of Balanced ESG framework to measure the performance of an organization which industry practitioners may find this useful as this exposes external and internal as well as long term and short term perspectives of performance. Without an agreed measurement basis, it is difficult to assess the ESG performance of a company.

Although the body of empirical literature on the ESG and financial performance of a company link is vast, it remains inconclusive. There are studies reporting positive, negative as well as neutral relationships between ESG and financial performance of a company.

Many researchers find socially responsibility is to be positively related to an organizations' financial and social performance. Russo and Fouts have identified CSR as a source of competitive advantage which a firm can create a sustainable competitive advantage and therefore engaging in corporate social responsibility issues could be a worthwhile consideration for a firm's management.

Bernardi and Stark find evidence of a strengthened relationship between ESG, environmental and governance disclosure levels and analyst forecast accuracy following the introduction of Integrated Reporting for both financial services firms and those from the other sectors.

Numerous positive benefits are asserted including better internal resource allocation decisions; external market benefits such as meeting the needs of mainstream investors who want Environmental, Social and Governance (ESG) information.

But some researchers find that there is a short-term negative impact on financial performance when firms applied the sustainability strategies which are officially required.

Same as traditional financial reporting, ESG reports can only provide historical information to its users and hence the ESG information may not be relevant to investment decision. In some countries, the ESG reports are not statutory reports or corporations are only required to provide explanation of why it cannot comply with the statutory requirements (e.g. the codes of provisions). This makes the investors not able to assess the company's ESG issues.

Some researchers argue that socially responsible initiatives create additional costs that may have negative impact on companies' financial performance and hence become less competitive than those less socially responsible organizations. Lamberton criticizes that corporate impacts on the environment can be changed by the provision of relevant information to stakeholders such as businesses pass environmental taxes on to consumers to partially offset the under pricing of economic goods and services from the failure to include environmental and social costs in market prices.

Kalinowski finds out that there is no clear correlation between sustainability support variables and stock market size variables. Adams & González argue that further research engaging with organisations is needed in order to identify how accounting and management systems might reduce their negative sustainability impacts.

Although there has become available a greater quantity of ESG information, many companies display a lack of understanding about how to approach integrated reporting, often presenting reports with excessive repetition of information.

Ho states ESG reporting remains inadequate for financial analysis, even as the quantity of publicly available ESG information has grown exponentially. She explains the deficiencies of public ESG information are a side-effect of the flexibility the current mix of voluntary and mandatory ESG reporting provides.

Based on different views on the relationship between the EGS and financial performance of a company, there is no conclusion regarding the impact of ESG information on a company's financial performance.

Objectives of the Study

- Developing financial solutions that drive action on climate change and generate other positive environmental impacts.
- Managing environmental risks, including climate-related risks.
- Minimising the environmental impacts of our physical operations.
- Partnering with organisations to advance sustainable development.

Analysis and Findings

To analyze this we did a survey among millennial and early Gen-Z groups on the ESG. It involved 210 respondents (118 were male and 92 were females) from different regions of India. The idea was not only to discover their attitude towards ESG investments but also to help the young population learn about the existence of ESG in finance. With this we tried to explain the ESG investment with the help of a short video that has surely got the attention of the youth and potentially opened doors to a new investment strategy for the Indian investors which they might not be aware about. But before deliberating the relation between ESG investment and Indian investors' outlook towards it, we have some interesting facts and mind-boggling figures.

There were only 29% females and 71% males who invest their money in any financial platform contributing to 47.6% of the total respondents and those who don't invest, rely on their family for the financial investment made on their behalf and FD's (Fixed Deposits) with 53.6% are the most preferable and safer investment option that the baby boomers generation (1946-1964) have picked for their future ones but the astonishing fact here was that 20% of the respondents didn't even know what kind of investments they hold in the first place. This number surely makes the youth incapable of understanding the need for financial investment.

Significance of ESG in current scenario

The growing demand in thenon-financial reporting sector has led to a critical need for increased responsibility and translucency to meet the requirements of stakeholders. related, i.e. terrain, workers and society. The operation, mindfulness and strategy of ESG issues are no longer enough; companies must align conditioning that produce value and wealth by localizing advanced social and environmental costs. generally, fiscal counsels, retail investors or distributors of fiscal products concentrate on profitablecompanies.However, the company is now looking to mate with companies that are taking way to concentrate on operatingeco-friendly product installations while separating growth from their environmental impact. The ESG charge is encyclopedically accepted. According to the DJSI (Dow Jones Sustainability Index), which measures the ESG performance of companies encyclopedically, participation rates increase to 33 in 2021 from 19 in 2019. Companies induce profit perimeters. advanced may face the threat of capital loss due to low. ESG score. DJSI's listed companies do well in terms of investors (retail and institutional) because they follow ESG-concentrated and socially responsible The growing interest and trends innon-financial interpretation and reporting are also reflected in Indian companies. lately, several voluminous filthy chip pots have blazoned their sustainability measures to reduce hothouse gas emigrations to zero. India is seeing ingenious tools by investors to finance gregarious and environmental enterprise. Last time, in April, India's first verdant bond was issued by GMC (The Ghaziabad Municipal Corporation), a civil body in Uttar Pradesh, also listed on Bombay Stock Exchange (BSE). India's finance minister lately blazoned that" the government will issue autonomous verdant bonds, the proceeds of which will be stationed in public region systems leveled at reducing the carbon copy vehemence of the frugality." profitable." People are now realizing the inhospitable jolt of inimical gregarious and environmental elections. As a result, the tenure ESG, which relates to all environmental, gregarious and governance parameters, is gaining a base in the commercial corridor. It isn't astounding that investors and controllers are fastening on assessing companies that borrow sustainability roadmaps and the ESGframework.

ESG Lending Practices

Investors concentrate on favored institutions and grow their companies in sustainable ways. The banking system also has the occasion to contribute to companies that meet the commitments of the United States and India under the Paris Agreement. ESG conditioning should be nearly linked to the Public Debt Management(PDM) guidelines issued by the International Monetary Fund(IMF) and the World Bank(WB). The World Bank has developed a public verdant bracket system as a companion for companies across nations. ESG investors substantially concentrate on the government bond request, while in the history it concentrated on intelligencer classes similar as folks and commercial bonds. Sustainable Linked Loans (" SLL") and Sustainable Bond Agreements (" SLB") have come showy in the lending world. Sustainable finance involves aspects of climate threat valuation and ESG procurators in investment program.

The bond guidelines punctuate the following four crucial rudiments:

a) the use of finances, taking subsidized systems to fall within the verdant design exemplifications that are deficient
b) design review process on sustainability pretensions,
c) product operation and
d) reporting to lenders

Example: GMC (Ghaziabad Municipal Corporation) is currently listed in Bombay Stock Exchange due to the amount the corporation raised through the issue of green bond. The first two green bonds were introduced by European Investment Bank in 2007 and IBRD in 2008.

Blue Bonds: Blue Bonds as the term, all by itself means for the protection and development marine environment. These bonds also operate on the green bond principles stated above. A National Policy on Blue Economy is being finalized by Ministry of Earth Sciences in alignment with SEBI's framework with ICMA's Green Bond Principles.

The" S" in ESG for Investment frequently when sustainability or environmental governance is still pacified by the sustentation of dynamism and natural coffers, but noway promotes allowing towards protect homemade work against exploitative diligence. Indeed, moment, FDI sees" sustainability" and" employees ' birthrights" as two veritably separate motifs, but discerned through the ESG lens, they're one and thesame.Company and government management of working out conditions in diligence is overcritical to investment.In May 2021, SEBI (Securities and Exchange Board of India), issued a circular on new reporting requirements specially the BRSR(Business Responsibility and Sustainability Reporting) for listed companies. This is an abecedarian revise from the old BRR (Business Responsibility Reporting) system to the BRSR (Business Responsibility and Sustainability Reporting) recitingsystem.This is the most recent action by Indian controllers to insure that companies bear out environmentally and socially responsible practices within their organisations. The nine principles of the NGRBC (National Guidelines for Responsible Business Conduct) are more nearly linked in the BRSR report. still, the new report only applies to the top 1000 listed companies by request capitalization with reporting conditions from financial time 2022- 23 and the option to report financial time 2021- 22.

The base of the new SEBI report was inspired by the Department of Companies report on BRR (Business Responsibility Report). The BRSR Report serves as a single, complete source of information onnon-financial sustainability measures for all applicable crucial business stakeholders,i.e.means shareholders, controllers, investors and the general public. As India is the third largest emitter of hothouse feasts in the world after the United States and China, it's essential to induce and apply sustainability crashes on an equal footing with fiscal statements.

Disclosure queries

SEBI requires the following exposures to misbehave with BRSR reporting conditions Companies should expose ESG pitfalls and collude out a mitigation program to beat these cases. Companies must purport the fiscal significance of the same below.

• Companies must easily state their sustainability pretensions and report on their interpretation.

• Disclosure of information related to the terrain involving waste operation conditioning, biodiversity, waste generation and GHG (Green House Gas) emigrations.

• Information about the company's pool involving gregarious diversity should carry measures for workers and employees with disabilities, gender diversity, security, advantages, median stipend moderate, occupational health and development rate.

• Disclosure of gregarious jolt valuation for restoration, resettlement and CSR.

• Disclosure of information descrying consumer complaints similar as product recalls, product labeling, data sequestration and cybersecurity complaints.

Challenges: ESG investment is presently facing numerous expostulations in India. Some of them are listed below:

• **Lack of high- quality data**

Directors are frequently exercised to collect special information about gregarious, environmental or governance interpretation. value of the company. An association's sustainability report can also give details of thisinformation.Many other documents, similar as periodic crashes, papers, press releases,etc., contain further information about ESG. Chancing information special to an association's ESG can be time- consuming and frequently befogging for investors. thus, the trustability of information remains a handicap to the expansion of ESG investment in India.

• **ESG funds have fragile balance sheets**:

In India, ESG funds have only recently started to take off.Due to this and the lack of a track record of ESG funds, many investors may be discouraged from considering this investment option.

• **Lack of knowledge**:

Although ESG investing is becoming more and more popular among investors, many people are still not aware of this fact. To expand the market for ESG investment, more and more investors need to be aware of its benefits.

• **Greenwashing**

Misrepresentation of investment strategies by fund managers for no good reason.

Some of the key issues related to ESG compliance in India are:

• **No definition of ESG** - Regulatory authorities have not defined the term ESG precisely.The loose use of the term ESG in sustainability by companies and regulators has led to unclear meaning of the term as well as how ESG is calculated and what it means.

• Regulatory Violation - Regulatory bodies in India were established with the aim of protecting investors' capital and complying with corporate governance. The purpose and scope of the regulator do not include environmental disclosure and sustainability reporting requirements. The ESG mechanism goes against the field of these regulators as this affect profitability and return on investment. This defeats the primary purpose of regulators like SEBI whose aim is to regulate financial fair play not the environmental aspect.

• Governance Issue - India has been grappling with the mass problem of lack of proper corporate governance.Even after the introduction of many rules and regulations on corporate governance, the deep root of the problem was there. Without addressing this issue, the current purpose of the ESG report will not be addressed as there will be no way to determine if sustainability is really happening or if it is just a hoax.

• Implementation costs - Environmentally friendly measures are often expensive and increase costs (e.g. solar panel installation costs, waste treatment plant installations and operating costs) wastewater) from companies.The main goal of companies is to find profit and this additional cost affects the financial viability, going against the interests of the shareholders. Especially for small businesses, reporting costs will likely outweigh financial returns.

• Lack of transparency, consistency, and materiality of ESG standards - There are challenges related to transparency, consistency, and materiality of ESG standards compliance and nondisclosure of hostile conduct enemies in which they are engaged. The quality of the data communicated by the companies is inadequate. Lack of transparency leads to boycotts and misallocation of assets, leading to a lack of trust.

• EU regulations are too broad - Companies doing business with companies based in the EU will inevitably be affected by EU regulations. Export-oriented companies doing business with EU countries should consider any supply and value chain disclosures that EU commitments may require. Companies offering financial products to EU financial market participants should be aware of the disclosures these participants are required to make and prepare the necessary. Indian companies cannot comply with EU regulations which are much higher than those of India and it will be difficult for them to survive in the market.

• The impact of ESG standards cannot be quantified unlike the financial measures (such as return on assets) currently in use.Therefore, it is difficult to compare the performance of different organizations using substantive criteria. ESG concerns are complex, and identifying the most important ones can have a significant impact on stakeholders. ESG compliance issues become more complicated when a particular company's supply chain located in different countries or states has different mechanisms and processes for calculating ESG ratings and the final product. used in another country, withdrawal and retraining are financially prohibited.

Can ESG liability affect financial performance?

A company's financial performance has been shown to be positively correlated with ESG performance, according to a study by the NYU Stern Center for Sustainable Investments. Interestingly, 58% of "companies" research found improvements in metrics like return on equity (ROE) and return on assets (ROA) due to better ESG performance. Companies with a clear track record of transparency and accountability for their non-financial operations and proven steps towards ESG transformation have generated tangible financial benefits. ESG adoption directly affects an organization's ability to access markets, financial capital, and human resources, as well as its ability to build better relationships with external stakeholders.Pioneers are well positioned to capitalize on the benefits of investing in a formal ESG strategy and deliver stakeholder value ahead of their peers. These early adopters are sure to enjoy many competitive advantages thanks to their foresight and proactiveness, such as better valuations and better stock performance. Trends have shown that companies that exhibit strong ESG performance become more agile, better managed, and deliver better financial performance.ESG-related financial performance drivers are focus on materiality, innovation, greater operational efficiency and better risk management. Disclosure without a strategy is ineffective – the ESG disclosure program must be accompanied by the organization's ESG strategy to drive better financial performance.

Conclusion

Investors today believe in impact investing, where the investor's dual objective is to generate finance and achieve environmental and social benefits. There has been a change in the view of investors. Investors are now looking to create wealth and are looking for sustainable growth potential for the next generation.Therefore, company board members need to understand ESG risks and develop an effective mitigation strategy to adopt strong ESG practices. From climate change to worker exploitation and poor corporate governance, all these parameters must be taken into account when creating a company's value chain.ESG is the key to minimizing systemic risk. There is no specific law that requires companies to implement integrations with ESG elements beyond the governing code. From the 2008 recession to the pandemic and now, there are recession projections in the United States that highlight the urgent need to change the investment landscape.State involvement, followed by profitable regularization, also common responsibility between the state and private agencies, all of which are unproductive factors across generations and mainlands. In India, assiduity-specific BRSR formats can be considered with specific additions to the main document but not as reserves as BRSR formats can be general and can be subject to important dubitation from a number of fields.This may produce confusion and diversity within the ESG compared to transnational forums.

In summary, it seems applicable to cite ***CJI Chandrachud:***

"***The burden of establishing environmental compliance belongs to someone who intends to bring about a change in the current state of the terrain. The terrain cannot be gambled the" heads I win, tails you lose" approach is simply inferior; inferior if we want to maintain environmental governance within the frame of the rule of law***."

ESG reporting, governance and exposure is a dynamic and growing field. For numerous associations, the factual benefits of enforcing a formal and comprehensive ESG strategy will eventually overweigh any perceived enterprises. Forerunner startups will be in a better position than their counterparts to secure further business openings and hookups. They must be suitable to reduce the threat of losing their business by being flexible and sustainable. It's possible to move incipiency guarantors, CXOs and board members to come up with a standard ESG plan as soon as possible to increase and maintain trust with guests, investors and mates.

References:

1. https://esgsummit.ie/agenda/green-washing-or-green-blushing-how-should-companies-communicate-their-sustainability-actions/
2. https://indiacorplaw.in/2022/03/esg-rating-providers-analyzing-indias-proposed-regulatory-framework.html
3. https://www.business-standard.com/article/markets/sebi-likely-to-soon-introduce-framework-on-esg-rating-providers-122120601000_1.html
4. https://www.thehindubusinessline.com/specials/clean-tech/esg-a-pragmatic-recipe-for-india-inc/article65840750.ece
5. https://www.globallegalpost.com/news/greenwashing-scrutinising-eco-friendly-imagery-labels-and-claims-406522521
6. https://www.ibanet.org/ESG-Regulators-adopt-focus-on-tackling-greenwashing
7. https://fintech.global/2023/02/13/greenwashing-is-impacting-faith-in-esg-can-data-be-the-saviour/
8. https://www.mondaq.com/india/corporate-governance/1201560/indian-legal-regime-for-esg