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EFFECTIVENESS OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) COMPLIANCE FRAMEWORKS: A STUDY OF REPORTING PRACTICES

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Abstract

Environmental, Social, and Governance (ESG) reporting has become an important part of corporate accountability, driven by regulatory mandates such as the Business Responsibility and Sustainability Report (BRSR), investor expectations, and growing stakeholder awareness on sustainable business practices. With more and more listed companies reporting on ESG-related matters, there is an ongoing debate as to whether current compliance frameworks lead to consistent, transparent and decision-useful reporting, or whether disclosure remains largely symbolic. This research explores the reporting practices of listed companies and evaluates the effectiveness of ESG compliance frameworks in enhancing transparency, comparability and accountability of stakeholders. The primary data were collected from 126 respondents who were corporate finance/compliance professionals, statutory auditors and institutional investment analysts associated with listed companies, through a structured questionnaire using personal and online survey methods. Data were analysed using descriptive statistics, percentage analysis and the Chi-square test of independence to determine the association between company size and perceived effectiveness of ESG compliance frameworks. The results show that governance disclosures are perceived to be relatively well standardised, while environmental and social metrics have inconsistent reporting quality and the effectiveness of the framework is significantly related to company size. The study suggests that a phased and size-sensitive compliance approach, third-party assurance and standardised sector specific disclosure metrics can improve the practical effectiveness of ESG compliance frameworks among listed companies.

Keywords: ESG Reporting, Compliance Framework, BRSR, Corporate Governance, Sustainability Disclosure, Listed Companies.

Introduction

Environmental, Social and Governance (ESG) reporting has transitioned from a voluntary corporate social responsibility exercise to a regulated and closely monitored dimension of financial and non-financial disclosure. In India, the Securities and Exchange Board of India (SEBI) has mandated the Business Responsibility and Sustainability Report (BRSR) for the top listed companies by market capitalisation. This marks a paradigm shift from narrative-based sustainability reporting to structured, quantifiable, and comparable ESG disclosure. In the same vein, global standards such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD) have also pushed listed companies to standardise their ESG disclosures.Despite this regulatory push, the move from disclosure requirement to disclosure quality has not been consistent among companies. Larger, well-resourced organisations with dedicated sustainability teams tend to produce more comprehensive and assured ESG reports, whereas mid-sized and smaller listed companies tend to treat ESG compliance as a checklist exercise, constrained by limited technical expertise, data-collection systems and assurance budgets.

This results in a gap between the intent of ESG compliance frameworks—to enable informed stakeholder decision-making—and the actual comparability and reliability of disclosed information.Understanding the effectiveness of current ESG compliance frameworks and the factors influencing reporting quality is vital for regulators developing disclosure standards, investors leveraging ESG data for capital allocation decisions, and firms seeking to move from compliance to meaningful sustainability performance. This study addresses that need by empirically examining ESG reporting practices and perceived effectiveness of compliance frameworks among professionals associated with listed companies.

2. Review of Literature

Shaikh (2022) studied the relationship between firm performance and environmental, social, and governance (ESG) practices using data from 510 firms in 17 countries. The study revealed that environmental and social dimensions negatively impacted financial performance, while governance positively impacted operational efficiency and firm value. The findings underscore the importance of strong governance and ESG disclosure in fostering sustainable business performance.

Handoyo and Anas (2024) examined the impact of Environmental, Social, and Governance (ESG) practices on firm performance in ASEAN countries, considering the moderating roles of regulatory quality and government effectiveness. The study found that governance performance significantly improves firm performance, while environmental and social performance showed limited direct effects. It also concluded that stronger regulatory quality and effective governance enhance the positive influence of ESG practices on firm performance.

Padilla-Rivera et al. (2025) proposed to enhance sustainability assessment by combining Life Cycle Sustainability Assessment (LCSA) with Environmental, Social and Governance (ESG) reporting. The research found that LCSA enhances the consistency, transparency and comparability of ESG reporting by including environmental, social and economic impacts across the entire life cycle. This integrated framework allows for better investment decisions and alignment of corporate sustainability with Sustainable Development Goals (SDGs).

Shmelev and Gilardi (2025) reviewed the role of Environmental, Social and Governance (ESG) frameworks in fostering sustainable business practices and long-term corporate resilience. The study concluded that successful implementation of ESG increases transparency, investor confidence, risk mitigation and sustainable value creation throughout the organisations.

2.1 Research Gap

While the mandatory shift to BRSR and global ESG frameworks have drawn significant regulatory and academic attention, empirical studies based on primary data that capture the perceptions of compliance professionals, auditors and analysts on the practical effectiveness of these frameworks, especially across companies of different sizes, are limited. This study aims to fill that gap.

2.2 Significance of the Study

The results of this study are expected to be useful to securities regulators in refining ESG disclosure norms, to listed companies in strengthening their sustainability reporting systems, to institutional investors and analysts in making investment decisions based on ESG data, and to statutory and sustainability auditors in performing ESG assurance engagements.

3. Objective of the Study

To examine the ESG reporting practices adopted by the listed companies and to assess the relationship between the size of the company and the perceived effectiveness of the ESG compliance frameworks.

4. Hypothesis

H_0 :There is no significant association between the size of the listed company and the perceived effectiveness of its ESG compliance framework.

H_1: There is a significant association between the size of the listed company and the perceived effectiveness of its ESG compliance framework.

5. Research Methodology

5.1 Research Design

The research uses a descriptive and analytical research design based on primary data collected directly from professionals involved in ESG reporting and compliance in listed companies.

5.2 Sample Size and Sampling Technique

The primary data was collected from 126 respondents which included corporate finance/compliance officers, statutory and sustainability auditors and institutional investment analysts of listed companies. Convenience cum purposive sampling technique was used for selecting respondents targeting individuals having direct professional exposure to ESG reporting or compliance evaluation.

5.3 Data Collection Tool

A structured questionnaire containing both closed-ended and five-point Likert-scale items was used to measure respondent and company profile, ESG reporting practices followed, perceived compliance framework effectiveness and assurance related experience. The questionnaire was distributed by a combination of in-person visits and online forms.

5.4 Tools for Analysis

The data collected was coded and analysed using percentage analysis, mean scores for Likert scale items and the Chi-square test of independence to test the stated hypothesis. The results in tabular form are presented in Section 6.

5.5 Period and Area of Study

The study was conducted among the professionals associated with the listed companies headquartered in and around Coimbatore, Tamil Nadu.

6. Results and Interpretation

Table 1: Demographic and Company Profile of Respondents (n = 126)

Profile Variable	Category	No. of Respondents	Percentage (%)
Gender	Male	70	55.6
	Female	56	44.4
Professional Role	Finance/Compliance Officer	58	46.0
	Statutory/Sustainability Auditor	34	27.0
	Institutional Investment Analyst	34	27.0

Profile Variable	Category	No. of Respondents	Percentage (%)
Company Size (Market Cap)	Large-cap	42	33.3
	Mid-cap	51	40.5
	Small-cap	33	26.2
ESG Assurance Status	Externally Assured	73	57.9
	Not Assured / Self-Certified	53	42.1

Table 2: Perceived Effectiveness of ESG Compliance Framework by Disclosure Category (Mean Score, 5-point scale)

Disclosure Category	Mean Score	Rank
Governance disclosures (board, audit committee)	4.21	1
Economic/financial materiality disclosures	3.92	2
Social disclosures (employee welfare, supply chain)	3.48	3
Environmental disclosures (emissions, water, waste)	3.35	4
Cross-company comparability of ESG metrics	3.02	5
Availability of independent third-party assurance	2.87	6

Interpretation:The highest average effectiveness score of 4.21 was recorded for governance disclosures, reflecting the maturity of governance reporting norms. The lowest score of 2.87 was recorded for independent third-party assurance, indicating that assurance mechanisms are perceived by the respondents as the weakest link in the current ESG compliance framework.

Table 3: Chi-square Test Company Size and Perceived Effectiveness of ESG Compliance Framework

Company Size	Low Effectiveness	Moderate Effectiveness	High Effectiveness	Total
Large-cap	4	14	24	42
Mid-cap	12	25	14	51
Small-cap	15	13	5	33
Total	31	52	43	126

Calculated χ^2 value = 21.47, Degrees of freedom = 4, Table value at 5% significance = 9.49.

Interpretation: The null hypothesis (H_0) is rejected since the calculated value of Chi-square (21.47) is greater than the table value (9.49) at 5% level of significance. This suggests a statistically significant relationship between company size and the perceived effectiveness of the ESG compliance framework,

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with large-cap companies reporting higher perceived effectiveness relative to mid-cap and small-cap companies.

Table 4: Perceived Barriers to Effective ESG Compliance

Barrier	Respondents Agreeing (%)
Lack of standardized measurement units for environmental metrics	68.3
High cost of third-party assurance	61.1
Limited in-house ESG/sustainability expertise	57.9
Inconsistent sector-specific disclosure guidance	50.8
Data collection challenges across supply chain/subsidiaries	45.2

Interpretation: According to a majority of respondents (68.3%), the biggest obstacle to effective ESG compliance is the lack of standardised measurement units for environmental metrics, with the high cost of third-party assurance coming second (61.1%). This suggests that effectiveness of the framework is less constrained by the intent to disclose and more by the standardisation of measurement and affordability of assurance.

Findings

1. Most of the sample respondents (57.9%) are from firms that secure external assurance on their ESG reporting, while a sizable minority (42.1%) are from firms that use self-certified disclosures.
2. Governance disclosures were the most mature and effective reporting category (mean score 4.21) and independent third-party assurance was the weakest element of current compliance frameworks (mean score 2.87).
3. The Chi-square test shows a statistically significant association between company size and perceived compliance framework effectiveness. Large-cap companies report significantly higher effectiveness than mid-cap and small-cap companies.
4. The ratings for environmental and social disclosures were less effective than those for governance and economic disclosures, indicating the ongoing lack of standardised measurement units for non-financial metrics.
5. The most cited obstacle to effective ESG compliance was the lack of standardised environmental measurement units, with 68.3% agreeing, followed by assurance costs at 61.1% and in-house expertise gaps at 57.9%.
6. Low compliance framework effectiveness was disproportionately reported by small-cap companies, indicating a resource-capacity gap in ESG reporting infrastructure relative to larger listed peers.

Suggestions

1. Regulators should adopt a phased, size-sensitive approach to ESG compliance, with simplified reporting formats and extended assurance timelines for small and mid-cap listed companies.
2. Sector-specific standardised units of measurement and disclosure guidance for environmental metrics (emissions, water, waste) would enhance comparability across companies and reduce ambiguity in reporting.

3. Subsidised or tiered third-party assurance mechanisms, potentially coordinated through industry associations or stock exchanges, could reduce the cost barrier that currently restricts the uptake of assurance among smaller companies.
4. To address the gap in in-house expertise, capacity building programs and ESG reporting certification courses should be extended to compliance and finance professionals in mid- and small-cap companies.
5. A centralised, exchange-hosted ESG disclosure comparison platform would enable investors and analysts to benchmark company performance more effectively, increasing the practical decision-usefulness of ESG frameworks.

Discussion

The findings of this study corroborate the perspective from previous compliance-framework literature that regulatory mandates alone do not ensure uniform disclosure quality—implementation capacity serves as a decisive mediating role. The statistically significant association between firm size and perceived compliance effectiveness (Table 3) suggests that policy measures that treat all listed firms as a homogenous compliance group may unintentionally widen the reporting quality gap between large, well-resourced companies and smaller listed firms still building ESG reporting infrastructure.

The relatively good performance of governance disclosures relatively to environmental and social metrics (Table 2) at the same time points to a substantial improvement in reporting quality where long-standing standardised codes are already in place. This suggests a clear policy lever: extending the same level of measurement standardisation that governance reporting has benefited from to environmental and social metrics could meaningfully close the current effectiveness gap.

The relatively low score for third-party assurance availability (Table 2) and its recognition as a significant cost barrier ([a convenience-cum-purposive sampling method, and results may not be entirely generalisable to listed companies across various regions or industry sectors. Self-reported perceptions of compliance effectiveness may also be affected by respondents' professional role and could change with future amendments to BRSR and related disclosure norms.

Scope for Future Research

Future research could extend this analysis with a larger, stratified sample across multiple states and industry sectors, include content analysis of actual published BRSR/ESG reports in addition to perception data, and investigate the specific role of assurance providers in shaping the credibility of ESG disclosures over time.

Conclusion

The study demonstrates that ESG compliance frameworks have achieved meaningful progress in standardizing governance-related disclosures among listed companies, but environmental and social reporting continue to lag due to the absence of standardized measurement units and limited assurance uptake, particularly among small- and mid-cap companies. Company size emerges as a significant factor shaping how effectively compliance frameworks function in practice, with larger, better-resourced companies deriving more consistent and credible reporting outcomes than their smaller peers. This suggests that the policy challenge ahead is not primarily about expanding the scope of mandatory ESG disclosure, but about ensuring that compliance frameworks are implementable with comparable rigor across companies of varying size and resource capacity. Standardized sector-specific metrics, affordable assurance mechanisms, and size-sensitive phased compliance timelines can help ESG reporting evolve from a regulatory checklist exercise into a genuinely decision-useful tool for stakeholders.

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