

**Analysis of ESG Implementation and Challenges in Selected Indian Banks– A Study**

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**Abstract**

Environmental, Social and Governance (ESG) practices have gained significant importance in the Indian banking sector due to increasing regulatory emphasis and the growing need to promote sustainable development. This study examines the implementation of ESG practices and the associated challenges in the Indian banking sector through a pillar-wise analysis. The research is based on secondary data collected from annual reports, sustainability reports, Business Responsibility and Sustainability Reports (BRSR), regulatory disclosures, and published policy documents of selected Indian banks. A descriptive and comparative analytical approach is adopted to evaluate Environmental, Social, and Governance dimensions and to assess the extent of ESG integration. The findings indicate that Indian banks demonstrate relatively stronger governance practices compared to environmental and social dimensions. However, challenges such as implementation costs, compliance burden, data standardization issues, and short-term financial pressures continue to affect the effective adoption of ESG practices. The study highlights the need for strategic alignment between sustainability objectives and financial performance. The findings are useful for policymakers, regulators, and banking institutions in strengthening ESG frameworks and promoting sustainable banking practices in emerging economies.

**Keywords:** ESG Implementation, Banking Sector, Sustainable Development, Governance Practices, ESG Challenges

**Introduction:**

Environmental, Social, and Governance (ESG) refers to a set of non-financial indicators used to evaluate an organization's sustainability practices and ethical impact. ESG extends beyond traditional financial performance by incorporating environmental responsibility, social accountability, and governance transparency into institutional evaluation frameworks.

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The Environmental dimension focuses on climate change mitigation, carbon emissions management, energy efficiency, waste reduction, and sustainable resource utilization. The Social dimension relates to employee welfare, diversity and inclusion, customer protection, financial inclusion, and community engagement. Governance refers to board structure, transparency, risk management systems, regulatory compliance, and ethical accountability.

In the banking sector, ESG assumes special significance because banks act as financial intermediaries influencing capital allocation across industries. Through responsible lending, green financing, and sustainable investment policies, banks contribute to national and global sustainability objectives. In India, regulatory initiatives such as Business Responsibility and Sustainability Reporting (BRSR) and climate-risk discussions have accelerated ESG integration in banking institutions.

This study examines ESG implementation patterns and challenges in selected Indian public sector banks using a structured disclosure-based analytical approach.

## Review of Literature

Fatemi, Glaum & Kaiser (2018): The study investigates how ESG performance influences firm valuation and finds that governance quality plays a particularly strong role in market valuation. The findings suggest that ESG disclosure reduces information asymmetry and enhances investor confidence.

Eccles, Ioannou & Serafeim (2014): This study compares high-sustainability firms with low-sustainability firms and demonstrates superior long-term financial performance for sustainability-oriented companies. It highlights that structured governance systems drive ESG effectiveness.

Gangi, Meles, Monferrà & Mustilli (2019): The authors analyse European banks and find that ESG performance positively affects financial performance and reduces risk exposure. Governance mechanisms are identified as a key driver of stability in banking institutions.

Scholtens (2009): This study examines corporate social responsibility in international banking and finds that socially responsible banks demonstrate stronger risk management capabilities. It highlights variation across countries in ESG adoption levels.

Weber (2014): Weber explores sustainable banking and concludes that integrating environmental risk into credit risk management improves long-term resilience. The study emphasizes the strategic importance of environmental risk assessment frameworks.

Buallay (2019): The study assesses the impact of ESG disclosure on financial performance across multiple sectors and finds mixed short-term effects but positive long-term impacts. Governance remains the strongest contributor to firm value.

Carè (2018): Carè investigates sustainable banking practices in emerging economies and argues that ESG integration is often compliance-driven rather than strategy-driven. The study calls for improved ESG measurement frameworks.

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Kumar & Firoz (2019): Focusing on Indian banks, this study examines sustainability reporting practices and finds growing disclosure trends following regulatory initiatives. Governance disclosures are comparatively stronger than environmental metrics.

Bahl (2012): This research analyses green banking initiatives in India and emphasizes the need for structured environmental frameworks in banking operations. It identifies challenges in environmental risk integration.

Gillan, Koch & Starks (2021): The authors review ESG and corporate governance literature and highlight the increasing investor demand for sustainability information. The study confirms that governance quality remains central to ESG credibility.

Nizam, Ng, Dewandaru, Nagayev & Nkoba (2019): The authors examine ESG and financial performance in emerging markets and find positive relationships, particularly in governance dimensions. Environmental performance shows variability across institutions.

Amel-Zadeh & Serafeim (2018): This study analyses investor perspectives on ESG and finds that ESG information is increasingly used for risk management and long-term valuation decisions.

DasGupta (2021): This study discusses climate risk and sustainable finance in India, highlighting the regulatory push by the Reserve Bank of India toward integrating climate-risk disclosures in financial institutions.

## Research Gap

Although ESG research has expanded significantly, most empirical studies concentrate on non-financial corporations and manufacturing sectors. Limited structured research is available on Pillar-wise ESG implementation in Indian public sector banks, Comparative disclosure intensity across ESG dimensions, Operational challenges faced in ESG integration, ESG disclosure quality under the BRSR framework. Given the systemic importance of banks in financial stability, examining ESG adoption in Indian public sector banks addresses an important research gap.

## Objectives of the Study

1. To analyse the extent of ESG implementation in selected Indian banks.
2. To examine pillar-wise ESG disclosure practices (Environmental, Social, Governance)
3. To identify key challenges in implementing ESG practices in the Indian banking sector.

## Research Methodology

The present study is descriptive and analytical in nature. It aims to examine the extent of Environmental, Social, and Governance (ESG) implementation and to analyse the challenges associated with ESG integration in the Indian banking sector. The descriptive component focuses on identifying and summarizing ESG disclosure

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practices, while the analytical component evaluates pillar-wise adoption patterns and comparative trends across selected banks. The study is based entirely on secondary data sources.

## Data Sources

The study relies on secondary data collected from publicly available and authenticated sources. The key sources include Annual Reports of selected banks, Sustainability Reports and Integrated Reports, Business Responsibility and Sustainability Reports (BRSR), Publications and discussion papers issued by the Reserve Bank of India.

## Sample Selection

For the purpose of analysis, two major Indian public sector banks i.e., State Bank of India and Bank of Baroda have been selected, based on the Market Capitalization, availability of ESG disclosures and BRSR reporting.

## Study Period:

The study covers a period of three financial years (2021–22, 2022–23, and 2023–24). This period captures post-BRSR implementation trends and recent regulatory emphasis on sustainable finance.

## Tools and Techniques Used:

Descriptive Analysis is used to summarize ESG disclosures and identify the extent of environmental, social, and governance initiatives adopted by selected banks.

## Limitations of the Study

The study is based on secondary disclosure data of only two public sector banks. The ESG scoring framework is qualitative and disclosure-based. The small sample size limits statistical generalization.

## Descriptive Analysis of ESG Practices

Both banks disclose initiatives related to green financing, renewable energy, financial inclusion, CSR spending, governance transparency, and risk management mechanisms. Governance disclosures are more structured and detailed compared to environmental metrics.

## Comparative Analysis (SBI v/s Bank of Baroda)

A comparative evaluation indicates the following patterns:

Dimension	SBI	Bank of Baroda	Observation
Environmental	Moderate to High	Moderate	SBI slightly stronger in structured reporting
Social	High	Moderate to High	Both strong in financial inclusion
Governance	High	High	Governance strongest pillar

Source: Authors' Compilation based on Annual Reports and BRSR disclosures.

## Key Observations:

- i. Governance is the strongest pillar for both banks.

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- ii. Environmental initiatives are improving but focus more on compliance.
- iii. SBI shows relatively more structured ESG reporting compared to Bank of Baroda.
- iv. Both banks emphasize social responsibility aligned with public sector mandates.

## Composite ESG Score

Bank	Environmental	Social	Governance	Total (Out of 30)
SBI	10	10	10	<b>30</b>
Bank of Baroda	5	9	9	<b>23</b>

Source: Authors' Compilation based on Annual Reports and BRSR disclosures.

## Interpretation

Governance is the strongest pillar for both banks. SBI demonstrates relatively more structured environmental disclosures. Social and governance dimensions are strong in both institutions, Environmental disclosures show relatively lower quantitative depth in Bank of Baroda.

## Descriptive Statistics – Environmental Dimension

Statistic	Value
Number of Banks (N)	2
Mean	7.5
Median	7.5
Mode	Not Applicable
Minimum	5
Maximum	10
Range	5

Source: Authors' Compilation based on Annual Reports and BRSR disclosures.

Interpretation:

The descriptive statistics for the Environmental dimension indicate a mean score of 7.5, suggesting moderate to high disclosure levels among the selected public sector banks. The median value of 7.5 reflects equal distribution between the two observations. No mode is observed due to the absence of repeated values. The range of 5 indicates noticeable variation in environmental reporting practices between the banks.

## Descriptive Statistics – Social Dimension

Statistic	Value
Number of Banks (N)	2
Mean	9.5
Median	9.5
Mode	Not Applicable
Minimum	9

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Maximum	10
Range	1

Source: Authors' Compilation based on Annual Reports and BRSR disclosures.

Interpretation :

The descriptive statistics for the Social dimension indicate a high mean score of 9.5, reflecting strong and consistent social disclosure practices among the selected public sector banks. The median value of 9.5 suggests balanced performance between the two institutions. The absence of a mode is due to non-repetition of values. The small range of 1 indicates minimal variation, demonstrating uniform emphasis on CSR activities, financial inclusion, and stakeholder engagement.

## Descriptive Statistics – Governance Dimension

Statistic	Value
Number of Banks (N)	2
Mean	9.5
Median	9.5
Mode	Not Applicable
Minimum	9
Maximum	10
Range	1

Source: Authors' Compilation based on Annual Reports and BRSR disclosures.

Interpretation :

The governance dimension records a high mean score of 9.5, indicating strong governance disclosure practices in both selected public sector banks. The narrow range of 1 suggests high consistency in board structure transparency, risk management mechanisms, and regulatory compliance frameworks. Governance appears to be the most institutionalized ESG pillar.

## Composite ESG Descriptive Statistics:

Statistic	Value
Number of Banks (N)	2
Mean	26.5
Median	26.5
Mode	Not Applicable
Minimum	23
Maximum	30
Range	7

Source: Authors' Compilation based on Annual Reports and BRSR disclosures.

Interpretation:

The composite ESG mean score of 26.5 (out of 30) indicates strong overall ESG disclosure performance among the selected banks. The range of 7 reflects variation primarily arising from environmental disclosure differences. Overall, ESG

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implementation appears well-established, particularly in governance and social dimensions.

## **Findings and Discussion:**

The study reveals that governance practices are the most institutionalized ESG component in Indian public sector banks. This aligns with global literature emphasizing governance as foundational to sustainability integration.

Social dimensions demonstrate consistency due to financial inclusion mandates and CSR obligations. However, environmental reporting remains comparatively disclosure-oriented rather than impact-driven. This supports prior research suggesting that climate-risk measurement frameworks are still evolving in emerging economies.

Overall, ESG adoption in selected banks appears compliance-driven but progressively structured.

## **Conclusion:**

The study concludes that ESG implementation in selected Indian public sector banks demonstrates strong governance and social disclosure practices, while environmental integration remains comparatively less structured. Although ESG reporting is improving under regulatory frameworks such as BRSR, transitioning from compliance-based reporting to strategic ESG integration is necessary for long-term financial sustainability.

The findings contribute to the growing literature on ESG adoption in emerging economy banking systems and provide policy-level insights for strengthening sustainable finance initiatives.

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