

Corporate Governance and Environmental Sustainability: A Legal Study

by Jana Publication & Research

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Abstract

Business issues are no longer independent of one another. Similar to the relationships within a corporation, there is a necessity to interweave several issues like environmental sustainability and corporate governance. This paper will discuss how the mechanism of ecological corporate governance can facilitate protection of corporates and accountability of corporates in regard to their ecological footprint. The paper tries to capture laws, regulations, and court decisions in India which react to enforcement of corporate eco governance and responsible corporate accountability in the environment via a doctrinal legal analysis. India's legal approach as illustrated within this paper is in a transition phase as indicators of enforcement like the Companies Act's CSR and SEBI's sustainability reporting directives and South African Companies Act eco governance directives illustrates a concern for the ecological balance of corporate governance. Nonetheless, gaps in the enforcement of legal eco governance coupled with a weak legal foundation such as the Companies Act CSR provisions, is restricting the legal transition. Thus, this piece highlights adherence to eco governance pillars, the enforcement of a weak legal foundation coupled with eco sustainability goals that align with international standards as a primary concern for legal transition. These findings can contribute to the formulation of eco governance legal frameworks.

Keywords

Corporate governance; Environmental law; CSR; ESG; SEBI; Sustainability; Legal compliance

1. Introduction

There has been a global shift from profit-only corporate models toward more sustainability-oriented models. Companies today face pressure from investors, regulators, and society to act responsibly towards the environment. Corporate governance is broadly defined as *"the system by which corporations are directed and controlled, balancing the interests of shareholders, management, customers, financiers, government, and society"*. It establishes

how power is exercised and how companies are held accountable. **Environmental sustainability** means operating in a manner that does not deplete or permanently damage natural resources, allowing current and future generations to meet their needs. The United Nations' Sustainable Development Goals (SDGs) call for responsible consumption and production and urgent climate action, linking corporate activity to global sustainability targets (United Nations General Assembly 2015).

There is a close link between corporate governance and corporate sustainability considering the substantial impacts corporate decisions have on the environment. Effective governance frameworks can help organizations 'look' beyond the short-term gains' 'focus' and assess the longer-term social and ecological impacts. The notion that corporations must respond to only shareholders is changing. Corporations now must respond to other constituents—for example, the social and ecological system. In India, this link is even more fundamental. In the Company's Act, 2013, Section 166(2), it states that every company's director must take into account, and defend the interest of, the company's stakeholders and 'for the protection of the environment'. This requirement makes it clear that responsibility for the environment must be addressed as part of corporate governance in India.

India's legal structure contains multiple intersection points of corporate engagement and the protection of the environment. With the Companies Act of 2013, India became one of the first countries to mandate corporate social responsibility (CSR) spending, including social and environmental value. Section 135 of the Companies Act places CSR obligations on large companies. Important environment laws such as the Environment (Protection) Act of 1986 as well as the Water and Air Acts impose obligations on companies regarding compliance of industrial pollution to legally established standards. In the meantime, the evolution of regulations concerning securities has also reached to the environmental, social and governance (ESG) reports which are to be published annually along with sustainability reports as prescribed by the Securities and Exchange Board of India (SEBI) for listed companies.

Research Questions:

1. How does corporate governance influence environmental sustainability in companies?
2. What legal frameworks currently govern corporate environmental responsibility in India?

3. How effective are bodies like SEBI and the NGT in enforcing sustainable practices?
4. What reforms are needed to better align Indian corporate law with global sustainability standards?
5. How do judicial decisions in India shape corporate accountability for environmental protection?

2. Conceptual Framework

The connection between governance and sustainability may be explained in terms of stakeholder theory and shareholder theory. The traditional shareholder theory is based on maximizing the shareholder value, and the stakeholder theory suggests that corporations have the duty to all stakeholders - employees, consumers, communities, and the environment. A governance model that is stakeholder-oriented will automatically be conducive to sustainability because, in it, the management has to view environmental and social impacts in decision making. The modern ESG framework supports this kind of approach to corporate performance assessment and incorporates the Environmental, Social, and Governance criteria into corporate performance assessment. The notion of sustainable practices is described by the terms like the green governance and triple bottomline. The triple bottom line has been dubbed by the phrase, People, Planet, Profit, and emphasizes the significance of non-financial measurements of success in social and environmental settings. This overlap is critical in the social and environmental considerations of the corporate governance as reflected in self-motivated social responsibility (CSR) community development and environmental sustainability projects undertaken by business enterprises. It acknowledges corporate governance to be dealing with sustainable value governance along with the traditional social, environmental, and legal requirements. The expansion of the International standards have been the main contributory of the idea of sustainable value governance in corporate governance principles. UN Global Compact promotes the adoption of business activities that are environmentally friendly. Global standards of OECD Guidelines on Multinational Enterprises and GRI promote activity in the environmental, social, and governance (ESG) arena. It thus follows that there is building expectation and a developing agreement that corporate governance is, and must be, sustainable.

3. Legal and Regulatory Framework

3.1 International Instruments

Global frameworks continue to develop the context surrounding corporate environmental accountability. The 1992 Rio Declaration on Environment and Development called for principles of sustainable development that India and numerous other nations embraced. Of particular importance, Principle 16 of the Rio Declaration articulated the polluter pays principle by indicating that polluters must pay the costs of their pollution (internalizing environmental costs). This principle influences the development of national policies by asserting that businesses that cause harm to the environment must compensate for and pay the costs of harm prevention and pollution remediation.

The Paris Agreement (2015) on climate change indirectly pressures corporations to cut greenhouse gas emissions as signatory nations implement their climate action plans. Likewise, the U.N. Sustainable Development Goals (2015) are aimed at encouraging corporate participation to help governments achieve targets, including clean energy and responsible consumption. Overall, almost all legal principles on the international front, be it sustainable development or polluter pays, have made their way into India's domestic laws and expectations of corporate governance.

3.2 Indian Framework and Institutions

India is starting to include and integrate laws on sustainable corporate governance and environmental legislation. Key is the Companies Act, 2013, which in Section 135 expects larger corporations to allocate 2% of their profit towards CSR (counting environmental CSR). Perhaps more significantly, Section 166(2) mandates company directors to account for the community and the environment which integrates stakeholder governance into the core of the duty. In Indian law, the failure to account for environmental factors may no longer be an external consideration but rather a breach of duty.

Agencies such as the SEBI have also been moving corporate practices towards greater consideration of integrated corporate governance principles. In 2019, SEBI imposed the first requirement on the top 1000 listed companies in India as part of their ESG disclosure standards, published under the BRSR framework, wherein they document their ESG performance. This also includes the governance, social, and corporate accountability portions under emissions, energy, waste, and resource management. With mandatory ESG reporting, the Indian corporations governance framework starting in 2021 drove their boards to account and incorporate environmental decision making and governance to the core of business and corporate strategy.

The other pillar of the framework consists of the Environmental regulations. The Environment (Protection) Act, 1986, the Water (Prevention and Control of Pollution) Act, 1974, and the Air (Prevention and Control of Pollution) Act, 1981 introduced laws which set standards for the level of pollution and gives the authorities the power to punish the offenders. Corporations are required to obtain environmental clearances and are required to comply to certain levels of emission and effluents and are subjected to penalties and even shut downs in the case of violation. The Police Control Boards are responsible for the enforcement of these laws.

The higher courts and the National Green Tribunal (NGT) perform other oversight roles. The NGT Act, 2010 designed a specific tribunal for environmental cases which has the power to punish and enforce the order of clean up on the offenders. NGT and hazard industry cases demonstrate the NGT's power to order compliance. These bodies and the laws demonstrate that corporate governance has accountability on the environmental impact of corporations.

4. Judicial Perspective and Case Studies

Indian courts have significantly shaped corporate environmental accountability through landmark judgments. In *Vellore Citizens' Welfare Forum v. Union of India* (1996), the Supreme Court applied the polluter pays principle to hold tanneries liable for cleaning up the pollution they caused, cementing the idea that sustainable development is part of Indian law (AIR 1996 SC 2715). In *M.C. Mehta v. Union of India* (1987) – the **Oleum Gas Leak Case** – the Supreme Court faced a toxic gas leak and formulated the doctrine of absolute liability for hazardous industries, meaning a company running a dangerous activity is fully liable for any harm caused, regardless of fault. This doctrine went beyond traditional negligence rules and ensured that victims of industrial accidents could be compensated by the operating company.

In some circumstances, like with *Tata Housing Development Co. Ltd. v. Aalok Jagga, Vedanta Ltd. Sterlite Industries*, and Supreme Court, profitable projects delaying the environment were stopped. The Supreme Court emphasized the closure of the polluting copper smelter and the luxury housing project near Tata's eco-sensitive housing. The Court decided the corporate projects were of lower priority than public health and environmental rights, confirming corporate interests. The court decisions encourage judicial activism and treating a clean environment as a fundamental right. Legally, it allows companies to avoid hefty damages, operational shut downs and integrate compliance, relying on the operational shut downs to integrate environmental compliance as part corporate governance.

5. Corporate Practices and Compliance Mechanisms

A lot of Indian companies are managing environment responsibilities in a gradual manner mostly governing on environmental responsibilities. One of the main key trends is the corporate egl reporting and governance. With SEBI's BRSR requirements, corporations have started developing processes systems to track their systems and performance on demands and social initiatives (energy use, carbon emissions, and waste generated environmental, social initiatives performance. Board comprised committess, frequently a committes audit one or and dedicated to sustainability, examine and to ensure accuracy determine and discuss reporting imorovments. Independent management under ESG is responsibility.

Demonstrating leading initiatives on on governance corporate and business sustainability integration and governance, and in demonstrating a profitability positive environmental strategies. Advanced environmental initiatives sustainability reporting and real third audit lead to controls on environment and delegated to controls, control and to environment. These initiatives fuel competitiveness and compliance to industry sustainability reporting to be leading documented initiatives sustainability and documented.

Indian companies adopt global best practices with regard to sustainability. Many companies release yearly sustainability and integrated reports and use the GRI and other global standards. Some companies are also getting external assurance for their ESG disclosures. More and more companies are gaing interest in ESG ratings and indices and performing to attract consustainable global investors. Although there are challenges to overcome, complying with these mechanisms and practices indicates a positive change in corporate mentality toward sustainability and stewardship and is accepted as part of the core business strategy and as substantial part of risk management.

6. Challenges and Gaps in Implementation

Despite the progress, several challenges impede effective implementation of corporate environmental responsibility in India:

- **Weak Enforcement:** Regulators often lack capacity to strictly monitor compliance, so violations by companies frequently go unchecked.
- **Opaque Disclosures:** Many ESG reports are inconsistent or incomplete, making it hard for stakeholders to gauge a company's true environmental impact.

- **Profit vs. Planet:** Short-term profit goals often trump investment in cleaner technology or pollution control, especially when enforcement is weak.
- **Regulatory Overlap:** Multiple agencies oversee environment rules (corporate affairs, SEBI, pollution boards), and poor coordination among them creates loopholes and inconsistencies.
- **Mild Penalties:** Fines for pollution are often too low to deter violations. Many companies simply pay and continue polluting because it is cheaper than compliance.

7. Recommendations and Future Directions

To strengthen the nexus of corporate governance and environmental sustainability in India, several steps are recommended:

- **Stronger ESG Rules:** Embed key sustainability metrics into corporate governance regulations, so that environmental performance is a compliance requirement, not just a reporting formality.
- **Sustainability Audits:** Require periodic independent environmental audits for large companies, similar to financial audits, to verify compliance and data accuracy.
- **Harsher Penalties:** Impose higher fines and legal liability (even on directors) for serious environmental violations to deter corporate polluters.
- **Board Expertise:** Require boards to include members with environmental expertise, and train directors on climate and pollution risks to improve oversight.
- **Agency Coordination:** Improve coordination between corporate regulators (MCA, SEBI) and environmental authorities to eliminate regulatory gaps and overlap.
- **Positive Incentives:** Offer tax breaks, easier financing, or procurement preference for companies that invest in clean technology and achieve proven sustainability benchmarks.

By adopting these measures Corporate India would transition to a model where the environment is integrated into the core of governance and strategy rather than being an afterthought. Harmonizing domestic standards with changing global standards like climate risk disclosure and green finance would ensure that Indian firms can be internationally competitive and climate resilient.

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217

218 **8. Conclusion**

219 Competent corporate governance systems provide for responsible pursuit of corporate
220 objectives for all stakeholder groups. Governance systems facilitate alignment of
221 stakeholders for long term planning. Sustainability rests on responsible alignment of
222 stakeholders. In India, governing responsibilities triggered account action for concealed and
223 relaxed responsibility.

224 Regulations and laws in India are advancing corporate sustainability. Corporate governance
225 sustainability remains concealed and relaxed responsibility. The need for stronger laws, their
226 enforcement, and the focus of practice in the reality of policy are unsatisfactory.

227 The eco-alignment of entrepreneurial activity and the pursuit of governance goals will align
228 in eco-responsive commercially driven entrepreneurial activity for the rule of law and
229 equitable governance. India is integrating corporate governance with sustainability. India will
230 sustain to eco-align with governance, and will be in alignment with the developed world.

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