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## ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) COMPLIANCE AND CORPORATE GOVERNANCE IN INDIA

~ *Aliza Irshad*

### ABSTRACT

Environmental, Social, and Governance (ESG) compliance has emerged as a significant aspect of modern corporate governance. Investors, regulators, and stakeholders increasingly expect companies to operate sustainably while maintaining transparency and accountability. In India, ESG regulation has gained momentum through the introduction of the Business Responsibility and Sustainability Reporting (BRSR) framework by the Securities and Exchange Board of India (SEBI). The objective of this paper is to examine the relationship between ESG compliance and corporate governance in India, analyse the existing legal and regulatory framework, identify challenges in implementation, and propose reforms to strengthen sustainability governance. The paper concludes that while India has made substantial progress through mandatory ESG disclosures and enhanced governance requirements, challenges relating to enforcement, standardisation, data reliability, and greenwashing continue to impede effective ESG implementation.

**Keywords:** ESG, Corporate Governance, BRSR, Sustainability Reporting, SEBI, Corporate Accountability.

### INTRODUCTION

The increasing emphasis on sustainable development and responsible business conduct has transformed the traditional understanding of corporate governance across the globe. In the contemporary corporate landscape, companies are no longer evaluated solely on the basis of their financial performance and profitability. Investors, regulators, consumers, and other stakeholders increasingly expect corporations to operate in a manner that is environmentally sustainable, socially responsible, and governed by transparent and ethical practices. This shift

has led to the emergence of Environmental, Social, and Governance (ESG) principles as a critical framework for assessing corporate performance and long-term sustainability.

ESG represents a set of non-financial factors that measure a company's impact on the environment, its relationship with employees, customers, and communities, and the effectiveness of its governance structures. Environmental factors include issues such as climate change, carbon emissions, energy efficiency, and resource management. Social factors encompass labour rights, diversity and inclusion, consumer protection, and community engagement. Governance factors relate to board composition, shareholder rights, transparency, accountability, executive remuneration, and ethical business conduct. Collectively, these factors provide stakeholders with a comprehensive understanding of a company's sustainability performance and risk management capabilities. In recent years, ESG compliance has become an essential component of corporate governance due to growing concerns regarding climate change, corporate misconduct, human rights violations, and financial instability. International organisations, institutional investors, and regulatory authorities have increasingly advocated for the integration of ESG considerations into corporate decision-making processes. Consequently, companies are under mounting pressure to disclose their ESG practices and demonstrate their commitment to sustainable and responsible business operations. In India, the significance of ESG compliance has grown substantially with the evolution of corporate governance regulations and sustainability reporting frameworks. Legislative initiatives such as the Companies Act, 2013, particularly its provisions relating to Corporate Social Responsibility (CSR), have played a crucial role in promoting responsible corporate behaviour. Furthermore, the Securities and Exchange Board of India (SEBI) has introduced various disclosure requirements aimed at enhancing transparency and accountability among listed companies. The introduction of the Business Responsibility and Sustainability Reporting (BRSR) framework marks a significant milestone in India's ESG regulatory regime by mandating comprehensive sustainability disclosures from leading listed entities. The integration of ESG principles into corporate governance offers several advantages, including enhanced transparency, improved risk management, increased investor confidence, and long-term value creation. However, despite the growing acceptance of ESG standards, significant challenges remain. Issues such as greenwashing, inconsistent reporting methodologies, lack of standardised metrics, compliance costs, and enforcement limitations continue to hinder the effective implementation of ESG frameworks. These challenges raise important questions regarding the adequacy of the

existing legal and regulatory framework and the extent to which ESG compliance genuinely contributes to improved corporate governance.

Against this backdrop, the present study seeks to examine the relationship between ESG compliance and corporate governance in India. It analyses the existing legal and regulatory framework governing ESG disclosures, evaluates the effectiveness of current compliance mechanisms, identifies challenges in implementation, and proposes reforms to strengthen sustainability governance. By exploring the evolving role of ESG in the Indian corporate sector, this paper aims to contribute to the broader discourse on corporate accountability, stakeholder protection, and sustainable economic development.

## **RESEARCH OBJECTIVES**

1. To examine the concept and significance of ESG compliance.
2. To analyse the legal and regulatory framework governing ESG disclosures in India.
3. To evaluate the relationship between ESG compliance and corporate governance.
4. To identify challenges associated with ESG implementation.
5. To suggest reforms for strengthening ESG governance in India.

## **RESEARCH METHODOLOGY**

This study adopts a doctrinal research methodology. Primary sources include statutory provisions, regulatory guidelines, and policy documents. Secondary sources include books, journal articles, reports, and scholarly publications relating to ESG compliance and corporate governance.

## **UNDERSTANDING ESG AND CORPORATE GOVERNANCE**

### **Concept of ESG**

Environmental, Social, and Governance (ESG) is a framework used to assess the sustainability, ethical impact, and overall responsibility of a corporation beyond its financial performance. The ESG framework has emerged as a significant tool for evaluating how companies manage risks and opportunities arising from environmental, social, and governance factors. In recent years, ESG has become a central consideration for investors, regulators, policymakers, and other stakeholders seeking to promote sustainable and responsible business practices.

The concept of ESG gained prominence following the growing recognition that corporate success cannot be measured solely through profitability and shareholder returns. Instead, businesses are increasingly expected to contribute positively to society while minimizing their environmental footprint and maintaining high standards of corporate governance. ESG principles encourage corporations to adopt a long-term approach to value creation by integrating sustainability considerations into their strategic and operational decision-making processes.

### **Environmental Factors**

The environmental component of ESG focuses on a company's interaction with the natural environment and its efforts to mitigate environmental risks. It evaluates how businesses manage issues such as climate change, carbon emissions, energy consumption, waste management, water conservation, pollution control, biodiversity protection, and the use of renewable resources. As concerns regarding climate change and environmental degradation continue to intensify, companies are under increasing pressure to adopt environmentally sustainable practices. Investors and regulatory authorities often assess a company's environmental performance to determine its preparedness for future environmental regulations and climate-related risks. Effective environmental management not only contributes to sustainability goals but also enhances a company's reputation and long-term resilience.

### **Social Factors**

The social dimension of ESG examines a company's relationships with its employees, customers, suppliers, communities, and other stakeholders. It reflects the extent to which an organisation upholds social responsibility and promotes the welfare of those affected by its operations. Social factors include employee health and safety, labour rights, workplace diversity and inclusion, gender equality, human rights protection, consumer welfare, data privacy, community engagement, and stakeholder relations. Companies that demonstrate strong social performance are generally perceived as more trustworthy and responsible, which can enhance stakeholder confidence and improve long-term business outcomes. In the modern corporate environment, social responsibility has become increasingly important due to heightened public awareness of issues such as workplace discrimination, labour exploitation, and corporate accountability. Consequently, organisations are expected to maintain ethical labour practices and contribute positively to societal development.

## **Governance Factors**

Governance constitutes the foundation upon which environmental and social objectives are implemented and monitored. The governance aspect of ESG focuses on the systems, structures, policies, and procedures through which corporations are directed and controlled. Governance factors include board composition and independence, executive remuneration, shareholder rights, transparency, accountability, anti-corruption measures, risk management mechanisms, ethical business conduct, and regulatory compliance. Strong governance structures ensure that management decisions are aligned with the interests of shareholders and other stakeholders while promoting integrity and accountability within the organisation. Good governance practices are essential for preventing corporate fraud, reducing conflicts of interest, and maintaining investor confidence. Effective governance also facilitates informed decisionmaking and strengthens an organisation's ability to address environmental and social challenges.

## **Evolution of ESG**

The origins of ESG can be traced to the broader concept of Corporate Social Responsibility (CSR), which emphasised the social obligations of businesses beyond profit generation. Over time, the limitations of traditional CSR initiatives led to the development of more structured and measurable approaches to sustainability assessment. A significant milestone in the evolution of ESG occurred in 2004 with the publication of the United Nations report titled "Who Cares Wins," which encouraged the integration of environmental, social, and governance considerations into investment analysis. Subsequently, ESG principles gained widespread acceptance among investors and financial institutions worldwide. Today, ESG has evolved into a comprehensive framework that influences corporate strategy, investment decisions, regulatory policies, and stakeholder expectations. It is increasingly viewed as an essential indicator of corporate sustainability and long-term business performance.

## **Understanding Corporate Governance**

Corporate governance refers to the system of rules, practices, processes, and institutions through which a company is directed, managed, and controlled. It establishes the framework within which corporate objectives are set, business operations are conducted, and accountability is ensured.

The primary objective of corporate governance is to promote transparency, accountability, fairness, and responsibility in corporate management. It seeks to balance the interests of various stakeholders, including shareholders, directors, employees, creditors, customers, suppliers, and the wider community. Corporate governance has gained significant importance in the aftermath of several corporate scandals and financial crises that exposed weaknesses in corporate oversight and accountability mechanisms. Effective governance frameworks are therefore essential to maintaining market confidence, protecting investors, and ensuring sustainable corporate growth.

### **Principles of Corporate Governance**

The fundamental principles of corporate governance include:

#### **Transparency**

Transparency requires corporations to provide accurate, timely, and comprehensive information regarding their financial performance, governance practices, and operational activities. Transparent disclosures enable stakeholders to make informed decisions and enhance trust in corporate management.

#### **Accountability**

Accountability ensures that directors and senior management are answerable for their actions and decisions. It requires clear allocation of responsibilities and effective oversight mechanisms to prevent misuse of corporate power.

#### **Fairness**

The principle of fairness requires equal treatment of all stakeholders, particularly minority shareholders. Corporate decisions should be made without discrimination and in accordance with legal and ethical standards.

#### **Responsibility**

Responsibility refers to the obligation of corporations to comply with applicable laws, uphold ethical standards, and contribute positively to society. Responsible corporate conduct promotes sustainable business practices and stakeholder confidence.

## **Relationship Between ESG and Corporate Governance**

ESG compliance and corporate governance are closely interconnected and mutually reinforcing concepts. While corporate governance provides the institutional framework through which corporations are managed and controlled, ESG establishes the sustainability objectives that guide corporate decision-making. Corporate governance serves as the mechanism through which environmental and social goals are implemented, monitored, and disclosed. Effective governance structures enable companies to integrate ESG considerations into business strategies, risk management systems, and reporting processes. Without strong governance mechanisms, ESG initiatives may remain ineffective or become mere symbolic commitments. Conversely, ESG principles broaden the scope of corporate governance by requiring companies to consider the interests of a wider range of stakeholders rather than focusing exclusively on shareholder wealth maximisation. This stakeholder-oriented approach promotes long-term value creation and sustainable business development. In the contemporary corporate environment, ESG compliance has become an essential component of effective corporate governance. Organisations that successfully integrate ESG principles into their governance frameworks are better positioned to manage risks, attract investment, maintain regulatory compliance, and enhance their corporate reputation. Therefore, ESG and corporate governance should not be viewed as separate concepts but as complementary mechanisms that collectively promote corporate accountability, sustainability, and long-term organisational success.

## **ESG REGULATORY FRAMEWORK**

The growing importance of Environmental, Social, and Governance (ESG) considerations has significantly influenced the regulatory landscape governing corporate conduct in India. In response to increasing global concerns regarding environmental sustainability, social responsibility, and corporate accountability, Indian regulators have introduced various legal and policy measures aimed at integrating ESG principles into corporate governance frameworks. Although India does not currently have a single comprehensive legislation exclusively dedicated to ESG compliance, several statutes, regulations, and policy initiatives collectively establish the ESG regulatory framework. The Indian ESG framework is primarily driven by the Companies Act, 2013, regulations issued by the Securities and Exchange Board of India (SEBI), environmental protection laws, labour welfare legislation, and sustainability reporting requirements. These regulatory measures seek to enhance corporate transparency,

encourage responsible business practices, protect stakeholder interests, and promote sustainable economic development.

### **Companies Act, 2013 and ESG Governance**

The Companies Act, 2013 represents one of the most significant legislative reforms in India's corporate governance regime. Although the Act does not expressly use the term "ESG," several of its provisions contribute directly to ESG objectives.

#### **Corporate Social Responsibility (CSR)**

One of the most notable features of the Companies Act, 2013 is the introduction of mandatory Corporate Social Responsibility (CSR) obligations under Section 135. India became one of the first countries in the world to legally mandate CSR expenditure for certain classes of companies. Under Section 135, companies meeting prescribed thresholds relating to net worth, turnover, or net profit are required to spend at least two percent of their average net profits of the preceding three financial years on CSR activities. These activities include Promotion of education, Eradication of poverty, Gender equality initiatives, Environmental sustainability projects, Rural development programmes, Healthcare and sanitation initiatives. The CSR framework reflects the social dimension of ESG by encouraging corporations to contribute towards societal welfare and sustainable development.

#### **Duties of Directors**

The Companies Act also strengthens governance standards by imposing fiduciary duties upon directors. Directors are required to act in good faith, exercise due care and diligence, avoid conflicts of interest, and promote the overall interests of the company and its stakeholders. These obligations contribute to the governance component of ESG by ensuring accountability, ethical conduct, and responsible decision-making within corporations.

#### **Board Committees and Independent Directors**

The Act mandates the appointment of independent directors and the constitution of various board committees, including audit committees and nomination and remuneration committees. These mechanisms improve transparency, strengthen oversight functions, and reduce the risk of corporate misconduct. Strong board structures are fundamental to effective ESG

implementation because they facilitate monitoring of sustainability risks and corporate performance.

### **Securities and Exchange Board of India (SEBI) and ESG Regulation**

SEBI has emerged as the primary regulatory authority promoting ESG compliance among listed companies in India. Recognising the growing importance of sustainability disclosures for investors and stakeholders, SEBI has introduced several reporting and governance requirements.

### **Evolution from Business Responsibility Report (BRR) to Business Responsibility and Sustainability Report (BRSR)**

In 2012, SEBI introduced the Business Responsibility Report (BRR) framework for certain listed entities. The objective was to encourage companies to disclose their performance relating to responsible business practices. However, the BRR framework was subsequently replaced by the Business Responsibility and Sustainability Report (BRSR), which provides a more comprehensive and standardised approach to ESG reporting. The transition from BRR to BRSR marked a significant shift in India's sustainability disclosure regime by requiring more detailed and measurable disclosures concerning environmental, social, and governance factors.

### **Business Responsibility and Sustainability Reporting (BRSR)**

The BRSR framework constitutes the cornerstone of ESG disclosure requirements in India. Introduced by SEBI in 2021, BRSR is applicable to the top listed companies based on market capitalisation. The framework is based on the National Guidelines on Responsible Business Conduct (NGRBC) and requires companies to disclose information relating to:

#### **Environmental Performance**

Companies are required to report information concerning, Energy consumption, Greenhouse gas emissions, Water usage, Waste management practices, Renewable energy initiatives, Environmental risk mitigation measures.

## **Social Performance**

The framework requires disclosures relating to Employee welfare, Workplace diversity, Gender representation, Human rights protection, Occupational health and safety., Community development initiatives.

## **Governance Practices**

Governance disclosures include Board composition and independence, Ethics and compliance mechanisms, Anti-corruption policies, Stakeholder engagement processes, Risk management systems. The BRSR framework aims to improve transparency and enable investors to assess sustainability-related risks and opportunities more effectively.

## **BRSR Core Framework**

To strengthen the quality and reliability of ESG disclosures, SEBI introduced the BRSR Core framework. This framework identifies key ESG indicators that are subject to enhanced scrutiny and assurance requirements. The introduction of BRSR Core reflects the regulator's efforts to reduce inconsistencies in reporting and improve stakeholder confidence in sustainability disclosures.

## **National Guidelines on Responsible Business Conduct (NGRBC)**

The National Guidelines on Responsible Business Conduct serve as the foundational policy framework for responsible corporate behaviour in India. These guidelines were issued by the Ministry of Corporate Affairs and provide broad principles that businesses are expected to follow. The NGRBC is based on nine core principles, including Ethical and transparent governance, Sustainable production and consumption, Employee well-being, Stakeholder responsiveness, Human rights protection, Environmental stewardship, Responsible public policy advocacy, Inclusive growth and development, Consumer value and protection. The BRSR framework derives its reporting requirements from these principles.

## **Environmental Laws Supporting ESG Compliance**

The environmental pillar of ESG is reinforced through various environmental protection statutes in India.

### **Environment (Protection) Act, 1986**

The Environment (Protection) Act, 1986 serves as the umbrella legislation governing environmental protection in India. It empowers the government to establish environmental standards and regulate activities that may cause environmental harm.

### **Water (Prevention and Control of Pollution) Act, 1974**

This legislation aims to prevent water pollution and maintain water quality standards. Industries are required to comply with environmental norms and obtain necessary approvals before discharging pollutants.

### **Air (Prevention and Control of Pollution) Act, 1981**

The Act regulates industrial emissions and seeks to control air pollution through licensing and monitoring mechanisms.

### **Biological Diversity Act, 2002**

This legislation promotes conservation of biological diversity and sustainable use of natural resources. Collectively, these environmental laws contribute to the environmental dimension of ESG compliance by imposing legal obligations on businesses to minimise ecological harm.

### **Labour and Social Welfare Legislation**

The social component of ESG is supported by numerous labour and employment laws designed to protect workers and promote workplace welfare. Key legislation includes Code on Wages, 2019, Industrial Relations Code, 2020, Occupational Safety, Health and Working Conditions Code, 2020, Code on Social Security, 2020. These laws regulate working conditions, employee welfare, workplace safety, social security benefits, and labour rights, thereby advancing the social objectives of ESG.

### **Role of Institutional Investors in ESG Compliance**

Institutional investors increasingly consider ESG performance when making investment decisions. Asset managers, mutual funds, pension funds, and foreign investors frequently evaluate ESG disclosures before allocating capital. As a result, companies are increasingly

motivated to improve ESG performance to attract investment and maintain competitiveness in capital markets. The growing influence of sustainable finance has transformed ESG compliance from a voluntary corporate initiative into a strategic business necessity.

### **Challenges in the Existing ESG Regulatory Framework**

Despite significant progress, several challenges continue to affect ESG regulation in India:

- Lack of a unified ESG legislation.
- Variations in reporting methodologies.
- Greenwashing and misleading disclosures.
- Limited assurance and verification mechanisms.
- Compliance costs for smaller companies.
- Evolving international reporting standards.

These challenges highlight the need for greater regulatory harmonisation and enhanced enforcement mechanisms.

### **ROLE OF ESG COMPLIANCE IN STRENGTHENING CORPORATE GOVERNANCE**

Environmental, Social, and Governance (ESG) compliance has emerged as a vital instrument for strengthening corporate governance by promoting transparency, accountability, ethical decision-making, and sustainable business practices. In the modern corporate environment, governance is no longer confined to ensuring financial performance and shareholder returns; rather, it encompasses the broader responsibility of corporations towards stakeholders, society, and the environment. ESG compliance facilitates this broader approach by integrating sustainability considerations into corporate strategies, risk management frameworks, and governance structures. Through mandatory disclosures and reporting requirements, ESG frameworks enhance transparency by requiring companies to provide detailed information regarding their environmental impact, social initiatives, governance practices, and sustainability objectives. This increased transparency enables investors, regulators, and other stakeholders to make informed decisions and evaluate the long-term sustainability of corporate operations.

Furthermore, ESG compliance strengthens accountability within organisations by requiring boards of directors and senior management to actively oversee sustainability-related risks and opportunities. The inclusion of ESG considerations in board deliberations ensures that corporate leaders remain accountable not only for financial performance but also for environmental stewardship, social responsibility, and ethical conduct. Effective ESG governance encourages the establishment of robust internal controls, compliance mechanisms, and monitoring systems that reduce the likelihood of corporate misconduct, fraud, and regulatory violations. It also promotes a culture of responsibility and integrity throughout the organisation.

Another significant contribution of ESG compliance to corporate governance is its role in improving risk management. Companies today face a wide range of risks arising from climate change, environmental degradation, labour disputes, cybersecurity threats, human rights concerns, and reputational damage. ESG frameworks enable organisations to identify, assess, and mitigate these risks proactively. By incorporating ESG factors into governance and decision-making processes, companies become better equipped to respond to emerging challenges and maintain long-term operational resilience.

ESG compliance also enhances stakeholder engagement by encouraging corporations to consider the interests of employees, consumers, suppliers, communities, and investors alongside those of shareholders. This stakeholder-oriented approach aligns with contemporary corporate governance principles that emphasise sustainable value creation and responsible business conduct. Strong ESG performance often leads to increased investor confidence, improved corporate reputation, and greater access to sustainable finance, as institutional investors increasingly consider ESG metrics when making investment decisions.

In addition, ESG compliance supports regulatory compliance and promotes adherence to national and international standards relating to environmental protection, labour welfare, human rights, and corporate governance. In India, frameworks such as the Business Responsibility and Sustainability Reporting (BRSR) requirements introduced by the Securities and Exchange Board of India (SEBI) have strengthened corporate disclosure practices and encouraged companies to integrate sustainability considerations into governance structures. Such regulatory initiatives contribute to the development of a more transparent, accountable, and responsible corporate sector.

Therefore, ESG compliance serves as a crucial mechanism for enhancing corporate governance by fostering transparency, accountability, effective risk management, stakeholder engagement, and long-term sustainability. It broadens the traditional scope of governance by incorporating environmental and social responsibilities into corporate decision-making, thereby ensuring that companies operate in a manner that balances economic objectives with societal and environmental interests. As global expectations regarding responsible business conduct continue to evolve, ESG compliance is likely to play an increasingly significant role in shaping the future of corporate governance in India and across the world.

## **CHALLENGES IN ESG COMPLIANCE**

Although Environmental, Social, and Governance (ESG) compliance has emerged as a crucial component of modern corporate governance, its effective implementation remains a significant challenge for businesses across the world, including India. Regulatory authorities, investors, consumers, and other stakeholders increasingly expect corporations to adopt sustainable and responsible business practices. However, despite the growing acceptance of ESG principles and the introduction of comprehensive reporting frameworks, many organisations continue to face practical, legal, and operational difficulties in achieving meaningful ESG compliance. The challenges associated with ESG compliance extend beyond mere regulatory reporting requirements. Companies must develop reliable systems for data collection, ensure transparency in disclosures, integrate sustainability objectives into business strategies, and balance stakeholder expectations with commercial interests. Furthermore, the absence of universally accepted standards and the evolving nature of ESG regulations often create uncertainty regarding compliance obligations. These challenges not only affect the quality of ESG reporting but may also undermine the broader objective of promoting sustainable corporate governance.

### **Lack of Uniform Global Standards**

One of the most significant challenges in ESG compliance is the absence of a universally accepted reporting framework. Various international organisations and regulatory bodies have developed different ESG standards, methodologies, and disclosure requirements.

Some of the prominent ESG reporting frameworks include Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), International Sustainability Standards

## Board (ISSB), Task Force on Climate-related Financial Disclosures (TCFD)

Each framework emphasises different indicators and reporting methodologies. As a result, companies operating across multiple jurisdictions often face difficulties in determining which standards should be followed. The lack of standardisation also makes it challenging for investors and stakeholders to compare ESG performance across companies and industries. In India, while the Business Responsibility and Sustainability Reporting (BRSR) framework has improved disclosure consistency, differences between domestic and international standards continue to create compliance complexities.

### **Greenwashing and Misleading Disclosures**

Greenwashing has emerged as one of the most serious concerns in ESG governance. Greenwashing occurs when companies exaggerate, misrepresent, or falsely portray their environmental or social initiatives in order to create a positive public image. Many organisations highlight selective sustainability achievements while concealing environmentally harmful practices or governance deficiencies. Such misleading disclosures may create a false impression of responsible business conduct and distort stakeholder decisionmaking. Greenwashing undermines the credibility of ESG reporting and reduces investor confidence in sustainability disclosures. It also creates an uneven playing field by allowing companies with weak sustainability performance to gain reputational benefits without making meaningful improvements. The increasing prevalence of greenwashing has highlighted the need for stronger regulatory oversight, independent verification mechanisms, and enhanced disclosure standards.

### **Data Collection and Reporting Challenges**

Effective ESG compliance requires companies to collect, analyse, and disclose large volumes of non-financial data. Unlike traditional financial reporting, ESG information often involves qualitative assessments and metrics that may be difficult to measure accurately. Companies frequently encounter challenges in gathering reliable data relating to Carbon emissions, Energy consumption, Water usage, Waste management, Workforce diversity, Employee welfare, Supply chain practices. Large organisations with extensive operations and global supply chains may face additional difficulties in obtaining accurate and consistent data from various business units and third-party suppliers. The absence of standardised measurement techniques further complicates data collection and increases the risk of inaccurate reporting.

### **High Compliance Costs**

The implementation of ESG programmes often requires substantial financial and administrative investment. Companies must establish internal compliance systems, develop reporting mechanisms, conduct sustainability assessments, and engage external consultants or auditors. Key costs associated with ESG compliance include Sustainability reporting systems, Data management infrastructure, Employee training programmes, Independent assurance and verification services, Environmental monitoring technologies, Legal and regulatory compliance measures. While large corporations may possess the resources necessary to meet these requirements, small and medium-sized enterprises (SMEs) often struggle to absorb the additional compliance burden. Consequently, ESG obligations may create financial and operational challenges, particularly for businesses operating in highly competitive sectors.

### **Regulatory Uncertainty and Evolving Standards**

ESG regulation is a rapidly evolving area of law and corporate governance. Governments and regulatory authorities across the world continue to revise sustainability disclosure requirements in response to emerging environmental and social concerns. The dynamic nature of ESG regulation often creates uncertainty for businesses attempting to establish long-term compliance strategies. Companies may face difficulties in adapting to changing reporting obligations, evolving stakeholder expectations, and new regulatory requirements. In India, the introduction of the BRSR framework and subsequent developments such as BRSR Core have significantly enhanced ESG disclosure requirements. While these reforms strengthen accountability, they also require businesses to continuously update their compliance systems and reporting processes.

### **Lack of Assurance and Verification Mechanisms**

The reliability of ESG disclosures depends largely on the existence of effective verification and assurance mechanisms. Unlike financial statements, which are generally subject to mandatory statutory audits, ESG disclosures have historically lacked comparable levels of independent scrutiny. The absence of robust assurance mechanisms may result in Inaccurate reporting, Selective disclosure of information, Manipulation of sustainability data, Reduced stakeholder confidence. Without independent verification, stakeholders may find it difficult to assess the authenticity and reliability of ESG claims. Although regulatory authorities have begun

introducing assurance requirements for certain ESG disclosures, the assurance ecosystem remains underdeveloped in many jurisdictions.

### **Board-Level and Organisational Challenges**

Successful ESG implementation requires active involvement from corporate leadership and board members. However, many companies continue to face governance-related challenges in integrating ESG considerations into strategic decision-making. Common governance challenges include, Lack of ESG expertise among board members, Insufficient oversight of sustainability risks, Limited integration of ESG objectives into corporate strategy, Weak accountability mechanisms, Resistance to organisational change. Where senior management views ESG compliance merely as a regulatory obligation rather than a strategic priority, sustainability initiatives often fail to achieve meaningful results.

### **Supply Chain and Third-Party Risks**

Modern corporations increasingly rely on complex domestic and international supply chains. Consequently, a company's ESG performance is often influenced not only by its own operations but also by the conduct of suppliers, contractors, and business partners.

Companies may face significant challenges in monitoring:

- Labour practices within supply chains.
- Human rights compliance.
- Environmental standards of suppliers.
- Ethical sourcing of raw materials.

Failure to adequately supervise third-party activities can expose corporations to reputational damage, legal liability, and regulatory scrutiny.

### **Balancing Profitability and Sustainability Objectives**

A recurring challenge in ESG compliance involves balancing short-term profitability with long-term sustainability objectives. Certain ESG initiatives may require substantial upfront investments, which can affect short-term financial performance. While such investments often generate long-term benefits, some companies may be reluctant to incur immediate costs, particularly in highly competitive industries where profit margins are limited. This tension

between economic objectives and sustainability commitments remains one of the central challenges in ESG governance.

### **COMPARATIVE PERSPECTIVE : INDIA AND UNITED KINGDOM**

The regulatory approach towards Environmental, Social, and Governance (ESG) compliance in India and the United Kingdom reflects a shared commitment to promoting sustainable corporate practices, although the two jurisdictions differ significantly in terms of regulatory maturity, enforcement mechanisms, and disclosure requirements. The United Kingdom is regarded as one of the leading jurisdictions in ESG regulation and sustainable finance, having developed a comprehensive framework that integrates sustainability considerations into corporate governance, investment decisions, and corporate reporting. Through initiatives such as mandatory climate-related financial disclosures, stewardship obligations for institutional investors, and adherence to internationally recognised sustainability reporting standards, the UK has established a sophisticated ESG ecosystem. The UK Corporate Governance Code places considerable emphasis on board accountability, stakeholder engagement, risk management, and long-term value creation, thereby facilitating the integration of ESG principles into corporate decision-making processes.

India, on the other hand, has witnessed significant progress in ESG governance over the last decade, particularly through reforms introduced by the Companies Act, 2013 and the Securities and Exchange Board of India (SEBI). The introduction of mandatory Corporate Social Responsibility (CSR) obligations under Section 135 of the Companies Act represented a pioneering step towards embedding social responsibility within corporate operations. Furthermore, SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework has strengthened sustainability disclosures among listed companies by requiring detailed reporting on environmental, social, and governance performance. These measures have contributed to greater transparency and accountability within the Indian corporate sector and have aligned Indian sustainability reporting practices with evolving global standards.

Despite these advancements, notable differences remain between the two jurisdictions. The United Kingdom possesses a more developed ESG reporting and assurance framework, supported by extensive regulatory guidance, stronger institutional investor participation, and more robust mechanisms for monitoring sustainability-related disclosures. ESG considerations are deeply integrated into corporate governance practices and investment strategies, with a

greater emphasis on climate-related risk assessment and sustainable finance. In contrast, India's ESG framework remains in a relatively developing stage, with challenges relating to standardisation, enforcement, data reliability, and compliance capacity, particularly among smaller enterprises. While Indian regulators have taken significant steps to strengthen ESG governance, the implementation of sustainability reporting standards and assurance mechanisms is still evolving. Another distinguishing feature is the role of sustainability disclosures in investment decision-making. In the United Kingdom, ESG performance has become a central consideration for investors and financial institutions, resulting in increased pressure on corporations to demonstrate measurable sustainability outcomes. Although ESG investing is gaining momentum in India, investor awareness and reliance on ESG metrics remain comparatively lower. Furthermore, concerns regarding greenwashing and inconsistent reporting practices continue to affect the credibility of ESG disclosures in the Indian context.

Nevertheless, India's regulatory framework demonstrates considerable potential for future development. The adoption of the BRSR framework, increasing investor interest in sustainable business practices, and the growing recognition of climate-related risks indicate a gradual convergence with international ESG standards. By strengthening enforcement mechanisms, enhancing disclosure assurance requirements, and promoting greater harmonisation with global sustainability frameworks, India can further improve the effectiveness of its ESG governance regime. Therefore, while the United Kingdom currently represents a more mature and comprehensive ESG regulatory model, India's evolving framework reflects a strong commitment towards sustainable corporate governance and offers significant opportunities for continued regulatory advancement.

## **CONCLUSION**

Environmental, Social, and Governance (ESG) compliance has emerged as a transformative element of modern corporate governance, reflecting the growing recognition that corporate success must be measured not only by financial performance but also by sustainability, social responsibility, and ethical governance practices. In India, the integration of ESG principles into the corporate regulatory framework through initiatives such as the Companies Act, 2013, mandatory Corporate Social Responsibility (CSR) provisions, and the Securities and Exchange Board of India's Business Responsibility and Sustainability Reporting (BRSR) framework demonstrates a significant shift towards responsible and sustainable business conduct. These measures have enhanced transparency, accountability, stakeholder engagement, and long-term

risk management, thereby strengthening the overall framework of corporate governance. However, despite considerable progress, several challenges continue to hinder the effective implementation of ESG compliance. Issues such as the absence of uniform global reporting standards, greenwashing, difficulties in data collection and verification, high compliance costs, regulatory uncertainty, and inadequate assurance mechanisms often reduce the effectiveness and credibility of ESG disclosures. Furthermore, many companies continue to face organisational and governance-related challenges in integrating ESG objectives into their strategic decision-making processes. These obstacles indicate that ESG compliance should not be viewed merely as a regulatory obligation but as a comprehensive governance strategy requiring active commitment from corporate leadership, regulators, investors, and other stakeholders.

The study concludes that ESG compliance has the potential to significantly improve corporate governance in India by promoting transparency, ethical conduct, investor confidence, and sustainable value creation. Nevertheless, achieving these objectives requires stronger enforcement mechanisms, greater standardisation of reporting frameworks, enhanced verification processes, and increased awareness among corporate entities regarding the longterm benefits of sustainability-oriented governance. As global investment trends increasingly favour responsible and sustainable businesses, Indian companies must embrace ESG principles not only to ensure regulatory compliance but also to enhance their competitiveness and resilience in a rapidly evolving business environment. Ultimately, the successful integration of ESG considerations into corporate governance will play a crucial role in fostering corporate accountability, sustainable economic growth, and long-term stakeholder welfare in India.