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The emerging role of corporate governance on environmental sustainability

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ABSTRACT:

Sustainability is indeed one of the most significant challenges facing the world today, driven by a multitude of interconnected issues, including climate change, social inequality, and environmental degradation. In response to these challenges, various stakeholders, including policymakers, regulators, and intergovernmental organizations, are taking substantial actions to address and mitigate these concerns. This highlights the need for more comprehensive and immediate action at various levels, including the private sector. Changing attitudes and expectations about the role of business in society are driving a shift towards a more responsible and sustainable approach to corporate conduct. Companies can respond to social issues in ways that are good for both business and society. Companies will need reliable data as well as sustainability expertise for the Corporate Sustainability Reporting Process. This paper contribute the embracing a holistic approach to corporate social responsibility (CSR) and integrating ESG principles into their core strategies, companies can not only contribute to addressing pressing global challenges but also enhance their reputation, attract socially conscious consumers and investors, and ultimately secure long-term success in an evolving business landscape where sustainability and social responsibility are paramount.

Key Words: Environment, Corporate Governance, Sustainability, Public Policy

1. INTRODUCTION

The landscape of Environmental, Social, and Governance (ESG) factors in sustainability has been rapidly evolving in recent years, reflecting a growing awareness of the interconnectedness between business practices and broader societal and environmental challenges. Despite numerous government pledges and global initiatives aimed at addressing environmental loss and promoting sustainability, the pace of environmental degradation continues in many regions of the world. Sustainability is indeed one of the greatest challenges facing the world today, and it encompasses a wide range of interconnected issues related to climate change, social equity, and environmental preservation. Sustainability and corporate responsibility are no longer just ethical considerations; they are integral to a company's long-term success and competitiveness. Every company may be at a different stage in their sustainability journey, but the benefits of embracing these principles are clear. While companies may be at different stages in their sustainability journey, the advantages of embedding sustainability and corporate responsibility are substantial. Leaders who understand these opportunities and commit to integrating sustainability into their business strategies are better positioned for long-term success in a rapidly changing world (Karthik Venkataraman, 2023).

Corporate governance and environmental development are two critical aspects of modern business and society. They are interconnected in several ways, as the way companies are governed can significantly impact their environmental practices and, conversely, the state of the environment can have a profound effect on corporate governance considerations. Corporate governance and environmental development are intricately linked in today's business landscape. Companies that prioritize environmental sustainability in their governance practices are better positioned to address environmental challenges, manage risks, and capitalize on opportunities related to sustainability. Moreover, businesses that fail to address environmental concerns adequately may face reputational damage, regulatory issues, and financial risks, highlighting the importance of integrating environmental considerations into corporate governance. Achieving sustainability requires a concerted effort from all sectors of society. It's not just a matter for policymakers and international organizations; it's a collective responsibility that encompasses individuals, communities, businesses, and governments worldwide. The long-term sustainability of our planet depends on our ability to work together to find solutions to these pressing issues (Hobbs, 2023).

Integrating ESG (Environmental, Social, and Governance) practices into business operations is a strategic approach that can yield several benefits, including mitigating risks, enhancing long-term sustainability, and minimizing negative impacts (INDIA, 2023). Integrating ESG practices into business operations is not only an ethical imperative but also a strategic advantage. It enables businesses to identify and mitigate risks associated with environmental and social challenges, enhances their long-term sustainability, and minimizes negative impacts. Moreover, ESG integration aligns with evolving consumer preferences and regulatory trends, positioning companies for continued success in a changing business landscape.

Environmental sustainability reporting is indeed a crucial tool for organizations to promote transparency and communicate their commitment to environmental responsibility to stakeholders (Comyns, 2014). Sustainability reporting allows organizations to disclose their environmental performance, initiatives, and impacts. This transparency fosters trust among stakeholders, including investors, customers, employees, and the public. It helps demonstrate a commitment to accountability and responsible business practices. Reporting on environmental sustainability holds organizations accountable for their actions. By setting targets and measuring progress, companies are more likely to take concrete steps toward reducing their environmental footprint. Sustainability reports are a valuable tool for engaging with various stakeholders. Investors can assess the long-term viability of a company's operations, customers can make informed choices based on a company's sustainability performance, and employees can be more motivated to work for a socially and environmentally responsible organization. Through sustainability reporting, organizations can identify and mitigate environmental risks and vulnerabilities. This proactive approach can help minimize potential legal, financial, and reputational risks associated with environmental issues. Companies that excel in environmental sustainability reporting often gain a competitive advantage. Sustainability reporting with long term strategies encourages organizations to continually improve their environmental performance. It provides a framework for setting and revising goals, implementing best practices, and adapting to evolving environmental challenges. Environmental sustainability reporting is a powerful tool for organizations to showcase their dedication to environmental responsibility, engage stakeholders, manage risks, and drive positive change. It plays a vital role in the transition towards a more sustainable and environmentally conscious business world.

Environmental reporting plays a crucial role in facilitating transparency and communication between organizations, their stakeholders, and society at large regarding their environmental performance and impact. Environmental reporting acts as a bridge or communication channel that connects an organization's management with the broader society. It allows companies to convey their environmental initiatives, achievements, and commitments to the public, which is essential for building trust and demonstrating a commitment to responsible environmental stewardship. In many regions, there are legal requirements for organizations to report on their environmental impact. By complying with these regulations and reporting environmental data, organizations can avoid legal penalties and maintain a positive reputation and serves as a vital tool for organizations to communicate their environmental efforts and impacts to stakeholders and society. It helps build trust, reduce information gaps, and promote responsible environmental practices, ultimately contributing to a more sustainable and accountable business environment. However the relative weakness of corporate governance elements in Indian companies can be attributed to several factors, although it's important to note that the corporate governance landscape in India has been evolving over time. While the presence of weak corporate governance elements has historically been an issue in Indian companies, there are ongoing efforts to improve the corporate governance landscape and align it with international best practices.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. *Theoretical literature review*

Examining environmental disclosure through the theories of legitimacy and stakeholder theory is a common approach in the field of corporate social responsibility (CSR) and sustainability reporting, through Legitimacy and Stakeholder Theory. It suggests that organizations seek to maintain their social and economic legitimacy by conforming to the expectations and norms of their stakeholders, which include the wider society, governments, and various interest groups. Stakeholder theory suggests that organizations have a responsibility to consider the interests and concerns of all their stakeholders, not just shareholders. Stakeholders can include employees, customers, suppliers, local communities, and environmental groups. These theories help explain why organizations engage in

environmental disclosure. It's worth noting that the practice of environmental disclosure is not just about compliance but also about strategic communication and engagement with stakeholders (Ofoegbu, 2012). Organizations may use these theories as frameworks to guide their sustainability reporting efforts and to foster better relationships with their stakeholders.

- Deloitte Hungary (**Deloitte**) in their paper “What are the challenges in ESG reporting” tried to find out the data collected and presenting it through success stories of ESG reporting and the main areas of concern that will have to be addressed on ESG installation.
- Infosys (INDIA, 2023) in their ESG Report 2023 tried to find out the ESG is an opportunity. Most companies know that being socially conscious and responsible is non-negotiable today. By integrating ESG practices, businesses can effectively mitigate risks associated with environmental and social challenges, enhancing their long term sustainability and minimizing negative impacts.
- IBM define (IBM) ESG reporting software from IBM® Envizi™ integrates a suite of products that help you capture and manage all your ESG data in a single system of record and report with confidence knowing that your data is auditable and finance-grade.

2.2. Empirical literature review

Environmental disclosure

Studies in environmental reporting have increased in India in the last decade, but unfortunately, it does not indicate conclusive results. The results of the empirical literature review focusing on ED in India. Indian Government announces that corporate social responsibility disclosure mandatory for all listed companies since 2014. Those studies in environmental reporting have increased in India over the last decade. Environmental Disclosure (ED) is an important aspect of corporate social responsibility (CSR) and sustainability reporting, and it's good to know that there is growing attention to this area in India. The Indian government's decision to make CSR disclosure mandatory for all listed companies since 2014 is a significant step towards promoting corporate responsibility and transparency. This move not only emphasizes the importance of businesses contributing to social and environmental well-being but also ensures that stakeholders have access to

relevant information about a company's CSR activities. While the Indian government's move to make CSR disclosure mandatory is a positive step, the lack of conclusive results in the empirical literature review may reflect the complexities and challenges in this field. It's essential to continue monitoring and researching this area to better understand the long-term impact of CSR and environmental reporting in India and to identify best practices that can drive meaningful change.

The relationship between Environmental, Social, and Governance (ESG) factors and corporate governance is a complex and multifaceted one. ESG refers to the set of criteria that investors and stakeholders use to evaluate a company's impact on the environment, society, and its governance practices. Corporate governance, on the other hand, encompasses the structures and processes by which a company is directed and controlled. There is need on the work on the critical role that corporate governance structures can play in addressing ownership changes and incorporating social and ecological issues into corporate management. Exposing their environmental activities can indeed bring various benefits to companies, and winning awards is one of the motivations (Deegan, 2022) .

Hypothesis development

2.2.1. ESG and Net Zero Practice and Performance

Environmental, Social, and Governance (ESG) and Net Zero practices have become increasingly important in the business and investment world as companies and organizations seek to address pressing global challenges, including climate change and social inequality. Various forms of media, including newspapers, magazines, television, websites, and social media platforms like Facebook and Instagram, are important channels through which environmental issues are communicated to the public (Noel Brown, 2012). Environmental awards play a crucial role in motivating businesses to adopt environmentally responsible practices, reduce their ecological footprint, and contribute to the global effort to combat climate change and preserve the environment for future generations. Responsible business and ESG (Environmental, Social, and Governance) reporting in India have indeed been gaining attention and slowly improving among leading Indian companies. ESG reporting refers to the practice of disclosing information about a company's performance and practices

in areas related to environmental sustainability, social responsibility, and corporate governance. We are also facing challenges in achieving our net zero goals due to various factors. Therefore, I hypothesize:

- H1: Rise of ESG and Net Zero requires Policy action.
- H2: ESG Performance in India is low.
- H3: Net-Zero Performance is low

2.2.2. ESG Financial Performance;

Achieving maturity in reporting, evaluating, and demanding accountability for sustainable business practices, especially in the context of Environmental, Social, and Governance (ESG) considerations, can take time, and India is no exception to this trend. Developing a robust ESG ecosystem involves various challenges and requires concerted efforts from governments, businesses, investors, and civil society. It is essential for companies to consider the costs and their financial condition when making decisions about environmental disclosure. While transparency and reporting on environmental performance are increasingly important for stakeholders, including investors, customers, regulators, and the public, companies must strike a balance between responsible disclosure and financial sustainability (Nasir, 2014). Therefore based on this observation my hypothesis is as

- H4: Long road ahead for sustainable change in Indian businesses for creating sustainable change in Indian businesses, as it is in many other parts of the world;

In sum, I argue that if ESG principles are applied in the company, it will strengthen the relationships between media coverage, award, financial performance, and the quality of ED. The hypotheses are formulated as follows:

- Hypothesis 1 (H1): Rise of ESG and Net Zero requires Policy action.
- Hypothesis 2 (H2): ESG Performance in India is low.
- Hypothesis 3 (H3): Net-Zero Performance is low.

- Hypothesis 4 (H4): Long road ahead for sustainable change in Indian businesses for creating sustainable change in Indian businesses, as it is in many other parts of the world.

In summary, given the increasing vulnerability of the business world to climate issues and the broader concerns related to social and ecological sustainability, corporate governance structures need to adapt and take proactive measures. By actively addressing these challenges, businesses can not only mitigate risks but also seize opportunities for innovation and growth in a rapidly changing global landscape.

3. Research Methods

The present study has done on the basis of secondary data collected from various related articles, research papers. Samples for this study was collected from the FUTUREESCAPE, NIFTY, STATISTA RESEARCH, FORBES INDIA database, which is the most widely accepted and used database on sustainability reporting system and different companies ESG Report. I also found that some of the most of the top Indian companies have published their annual ESG report regularly. The samples in this research were high profile environmentally sensitive manufactures listed companies in India during 2014-2023. The sample in this study was selected by using a purposive sample method by considering the Social, Environmental and Responsibility (SER) report in the annual report or sustainability report.

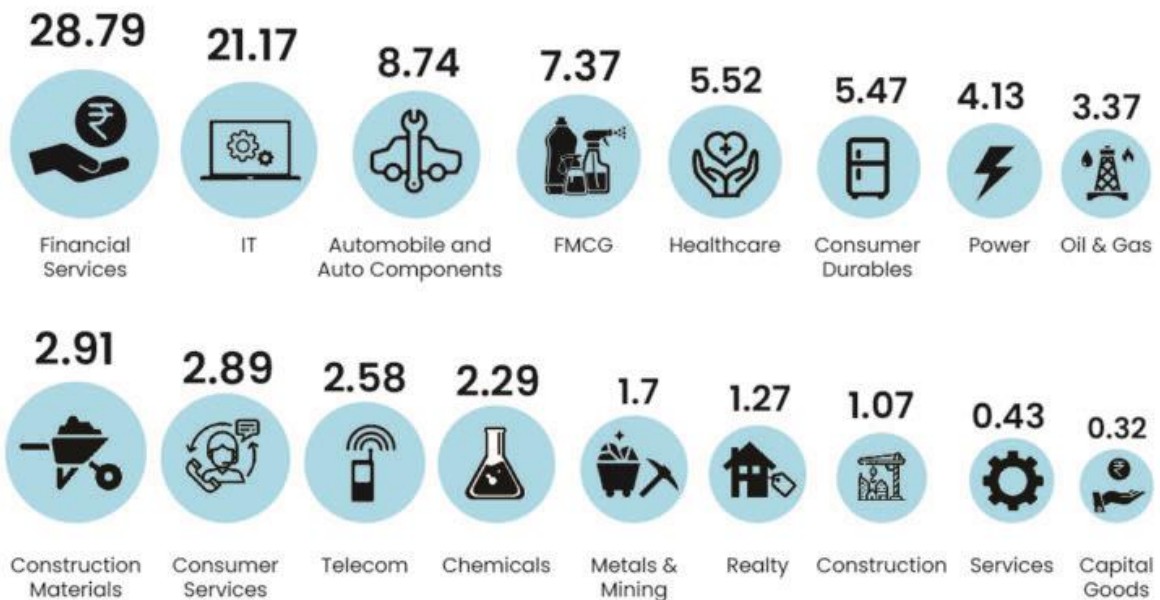
4. Empirical results and discussion

The rise of ESG (Environmental, Social, and Governance) and Net Zero companies is indeed a significant trend in the business world, driven by a growing awareness of sustainability issues and the recognition that companies that prioritize ESG factors are often more resilient and competitive in the long term. The Nifty100 ESG Index is an index designed to measure the performance of companies within the Nifty 100 index while taking into consideration their Environmental, Social, and Governance (ESG) risk scores. ESG criteria are used to assess how companies manage various aspects related to the environment, social responsibility, and corporate governance.

Nitty-Gritties of NIFTY 100 ESG Index



Sector Representation with allocation (%)



TOP CONSTITUENTS

*Note: Values mentioned in %



Figure: 1 E.S.G. Investing [Source: Research & Ranking]



Figure:2,Nifty 100 ESG INDEX, [Source:NIFTY]

After posting positive returns for six consecutive years, India's Nifty100 ESG Index has turned negative so far this year, underperforming the benchmark Nifty Index of the National Stock Exchange. The underperformance of the Nifty100 ESG index can be attributed to a variety of factors, and the performance of specific stocks within the index, such as Tata Consultancy Services, Infosys, HCL Technologies, Wipro, HDFC twins (HDFC Bank and HDFC Ltd.), and Kotak Mahindra Bank, can indeed have a significant impact on the overall index performance. Investors in India are becoming more conscious of the Environmental, Social, and Governance (ESG) theme when it comes to investing in companies. ESG criteria are increasingly being integrated into investment strategies worldwide as investors recognize the importance of sustainability and responsible business practices.

In conclusion, the rise of ESG and Net Zero companies reflects a fundamental shift in the way businesses operate and are evaluated. Sustainability and responsible business practices are no longer seen as antithetical to good business; instead, they are recognized as integral components of long-term success and competitiveness. Companies that embrace these principles are likely to not only meet the expectations of a changing market but also contribute to a more sustainable and equitable future.

Net Zero is a critical component of Environmental, Social, and Governance (ESG) actions, but it's just one piece of the larger sustainability puzzle. ESG encompasses a

broader spectrum of factors that organizations need to consider in their sustainability efforts.

Performance improvement is skewed towards Environment parameter

India made a five-point commitment in its pursuit of achieving net-zero emissions. By 2030, it aims to increase the non-fossil energy capacity by 500 GW, fulfil 50% of its energy demand with renewable energy, reduce 1 billion tonnes of CO₂ and decrease carbon intensity to less than 45% (Kulkarni, 2022).

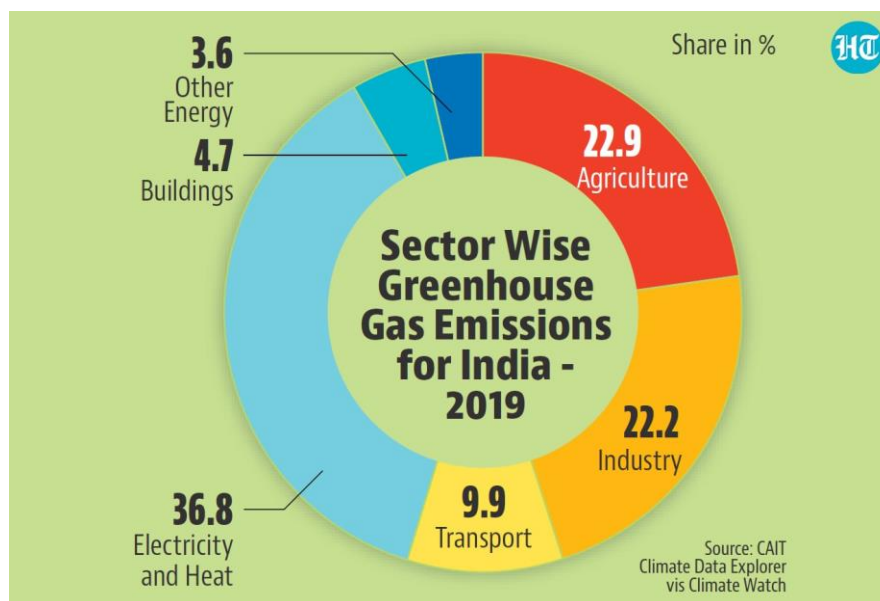


Fig:3, Sector wise Greenhouse Gas Emission, Source: The Hindustan Times.

Responsible business reporting in India may still have a long way to go, the fact that it's improving among leading companies is a positive sign. Continued efforts to adopt reporting frameworks, respond to stakeholder expectations, and integrate sustainability into core business strategies can contribute to a more responsible and sustainable business environment in India. Companies are mainly focused on complying with the domestic law instead of proactively analysing what is relevant for their business and redefining their benchmarks in the global economy due to as;

- Performance in Environment Parameter: Companies that perform well in the "Environment" parameter are those that prioritize and excel in environmentally sustainable practices. This might include reducing carbon emissions, conserving resources, minimizing waste, and promoting clean energy solutions.

- **Alignment with National and Global Goals:** Companies that align with national and global environmental goals are contributing to broader efforts to address climate change, biodiversity loss, and other environmental challenges. This alignment can improve a company's reputation and support its long-term sustainability.
- **Internal Initiatives:** Companies often focus on internal initiatives to improve their environmental performance. These initiatives can range from energy-efficient technologies to waste reduction programs within their own operations.
- **Quick Implementation:** Many companies have been quick to implement environmental measures due to increasing awareness of environmental issues and regulatory pressures. This is often driven by consumer demand for eco-friendly products and services.
- **Compliance vs. Proactive Analysis:** It's true that some companies may primarily focus on complying with domestic environmental laws and regulations rather than taking a more proactive approach. This could be because they view compliance as the minimum requirement, or they may not fully recognize the long-term benefits of sustainability.
- **Redefining Benchmarks:** To be leaders in the global economy, companies should not just aim for compliance but also proactively analyze what's relevant for their business in the context of the global environment. This means setting higher environmental standards, innovating sustainable products and services, and aligning with international environmental agreements and standards.
- **Challenges and Opportunities:** While compliance is essential, forward-thinking companies can find opportunities in environmental sustainability. Embracing eco-friendly practices can lead to cost savings, access to new markets, and enhanced brand reputation. It can also help mitigate risks associated with changing environmental regulations.

It's crucial for companies to strike a balance between compliance with existing environmental laws and proactive efforts to redefine their benchmarks in the global economy. This approach not only helps protect the environment but also positions companies for long-term success in a world increasingly concerned with sustainability.

Net Zero Performance is low;

As per the data from the Sixth IPCC report information indicates the presence or absence of net zero initiatives within specific sectors of the top 100 companies. Net zero initiatives typically refer to efforts by companies to reduce their carbon emissions and environmental impact to zero or a net-zero level, often by offsetting emissions through sustainability measures or carbon credits. It's important to note that this data may change over time as companies update their sustainability efforts and reporting. Collaboration between governments, businesses, and civil society is essential to drive these changes. Governments can create regulatory frameworks that encourage sustainable practices and provide financial incentives for green investments. Businesses can take the lead in implementing sustainable strategies and reducing emissions. Civil society plays a role in raising awareness, holding stakeholders accountable, and advocating for environmental protection. Addressing climate change and preserving our planet's resources requires a multi-faceted approach that encompasses technological innovation, regulatory action, financial support, and widespread societal engagement. It's a global challenge that demands immediate and sustained efforts from all sectors of society.

Long road ahead for sustainable change in Indian businesses

Sustainable change in Indian businesses, as in businesses worldwide, involves addressing environmental, social, and governance (ESG) factors. These factors play a crucial role in shaping a company's long-term success, reputation, and its impact on society and the environment. Need urgent attention on Environmental Factors, Carbon Footprint, Energy Consumption, Water and Waste Management, and other Environmental Impacts which include factors like biodiversity conservation, sustainable sourcing of raw materials, and reduction of pollution. Sustainable change in Indian businesses often requires a shift in mindset, corporate culture, and operational practices. Regulatory frameworks and reporting standards related to ESG, such as the Sustainable Development Goals (SDGs) and the Global Reporting Initiative (GRI), can help guide businesses in their sustainability journey. Moreover, investors and consumers are increasingly considering ESG factors when making decisions, which can incentivize companies to improve their performance in these areas. Collaborative efforts among businesses, government bodies, and civil society are also

essential to drive sustainable change and foster a more responsible and ethical corporate environment in India and around the world.

5. THE EFFECTS OF CORPORATE GOVERNANCE ON ENVIRONMENTAL SUSTAINABILITY

The impact of a business needs to be evaluated across all capital—financial, natural, human and social and India's urgent need to make the revolution green for sustainable change in Indian businesses (SUKHDEV, 2019) (Shah, 2021) . Assessing the impact of a business across all capital dimensions, including financial, natural, human, and social, is essential for sustainable development and growth. This approach is often referred to as a "quadruple bottom line" or "4P" accounting, which goes beyond the traditional focus on profits to consider the broader implications of business activities. In the context of India, where environmental and social challenges are significant, evaluating business impact in this holistic manner is crucial. India's urgent need for a green revolution in business aligns with global trends toward sustainability. Evaluating a business's impact across all capital dimensions is a critical step in achieving this transformation. By considering financial, natural, human, and social capital, businesses can contribute to sustainable change while ensuring their long-term success in a rapidly changing economic and environmental landscape.

Sustainability is indeed one of the most significant challenges facing the world today, driven by a multitude of interconnected issues, including climate change, social inequality, and environmental degradation. In response to these challenges, various stakeholders, including policymakers, regulators, and intergovernmental organizations, are taking substantial actions to address and mitigate these concerns.

Climate Change: Climate change is perhaps the most pressing sustainability challenge. Rising global temperatures, extreme weather events, and the depletion of natural resources pose a significant threat to the planet. International agreements like the Paris Agreement aim to limit global warming to well below 2 degrees Celsius above pre-industrial levels.

Social Inequality: Achieving sustainability also involves addressing social issues such as inequality, poverty, and access to education and healthcare. Sustainable development goals

(SDGs), established by the United Nations, set targets to address these issues and promote a more equitable world.

Environmental Conservation: Protecting biodiversity, reducing pollution, and conserving natural ecosystems are vital components of sustainability efforts. Various organizations and initiatives focus on preserving critical ecosystems and reducing the environmental footprint of human activities.

Circular Economy: Transitioning from a linear "take-make-dispose" economy to a circular economy that minimizes waste and emphasizes resource efficiency is a key strategy for sustainability. This involves recycling, reusing, and reducing waste in production and consumption processes.

Renewable Energy: Transitioning to clean and renewable energy sources, such as solar, wind, and hydroelectric power, is crucial for reducing greenhouse gas emissions and mitigating climate change.

Regulations and Policies: Governments around the world are implementing regulations and policies to promote sustainability. These include carbon pricing, emission reduction targets, and incentives for sustainable practices.

Corporate Responsibility: Many companies are recognizing the importance of sustainability and incorporating it into their business strategies. This includes adopting sustainable supply chain practices, reducing carbon emissions, and engaging in corporate social responsibility initiatives.

International Cooperation: Addressing global sustainability challenges requires international cooperation. Organizations like the United Nations, World Bank, and World Trade Organization play essential roles in facilitating collaboration among nations.

Education and Awareness: Raising awareness and educating people about the importance of sustainability is a critical component. This includes promoting sustainable lifestyles and responsible consumption and production patterns.

Innovation and Technology: Advancements in technology, including green technologies, can play a significant role in addressing sustainability challenges. Innovations in energy, agriculture, transportation, and waste management are helping reduce environmental impacts.

In summary, the sustainability challenge encompasses a broad spectrum of issues, and addressing them requires a collective effort from governments, organizations, communities, and individuals worldwide. Achieving long-term sustainability is essential for the well-being of current and future generations and the health of our planet.

6. SUMMARY AND CONCLUSION

The environmental disclosure practices in developing countries, such as India, can provide valuable insights into corporate social responsibility (CSR), sustainability reporting, and the environmental performance of businesses in these regions.

The conclusion of the study is that we need more Rise of ESG Practice and Net Zero requires active policy for action, achieving the rise of ESG practices and Net Zero emissions requires a multifaceted approach involving governments, businesses, investors, and civil society. Active policy action is a crucial driver in this effort, creating a supportive environment for sustainable practices and responsible corporate behavior.

The consequence of this finding is that company management is absolutely required to implement the good principles of ESG performance. The consequence of company management implementing good ESG principles is a range of potential benefits, including improved reputation, risk mitigation, access to capital, long-term sustainability, employee satisfaction, and competitive advantage. Additionally, as ESG considerations continue to gain prominence in the business world, companies that neglect these principles may face reputational and financial risks.

The evolving landscape of corporate governance in India is increasingly intertwined with environmental sustainability. By embracing sustainable practices, companies can not only contribute to a greener future but also ensure their own resilience and prosperity in a changing world. Continued efforts to strengthen corporate governance mechanisms and regulatory frameworks will be essential in driving these positive trends forward. By implementing these regulatory measures, governments can create a framework that not only raises awareness among private sectors about the importance of environmental reporting but also holds them accountable for their environmental management practices. Improving environmental disclosure in India requires a multi-faceted approach that involves regulatory

changes, increased awareness, and the active participation of various stakeholders. This collective effort can help drive positive environmental practices and transparency in reporting, ultimately contributing to more sustainable business operations.

For future research, I suggest improving the engagement of non-ESI companies and identifying differences in the quality of disclosure. For future cross-border data research, common and civil law need to be considered, as sustainability reports have different rules and expectations between countries.

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