

## Sustainability and Corporate Law: Legal Requirements for Green Business Practices Dr (CS.) Mala Kumari Upadhyay<sup>1</sup>

<sup>1</sup>Associate Professor Amity University, Patna, India

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### Abstract

Sustainability is a cornerstone of modern corporate governance, driven by mounting environmental concerns, stakeholder pressures, and regulatory mandates. This paper explores the intersection of sustainability and corporate law, focusing on the legal requirements that compel businesses to adopt green practices. It examines global trends, enforcement challenges, and corporate law's role in shaping sustainable business operations. Through analyzing legislative frameworks across jurisdictions, the paper highlights best practices and offers actionable recommendations for improving legal mechanisms to promote sustainability.

**Key Words:** *Sustainability, Green Business, Corporate Law, legislative frameworks*

### Introduction

The growing global emphasis on environmental preservation has shifted the focus of corporate operations toward sustainability. Sustainability in the corporate context refers to conducting business in a manner that meets present needs without compromising the ability of future generations to meet their own. Corporate law, which governs the formation, operation, and regulation of corporations, plays a pivotal role in shaping and enforcing the legal frameworks that drive sustainable business practices.

### **Definitions**

1. **Sustainability:** Defined by the United Nations as development that meets the needs of the present without compromising the future, sustainability in business involves adopting strategies that are economically, socially, and environmentally responsible.
2. **Corporate Social Responsibility (CSR):** A self-regulating business model where companies are accountable for their impact on society and the environment. CSR initiatives may include reducing carbon footprints, improving labor policies, and supporting community development.
3. **Green Business Practices:** These are business actions aimed at reducing environmental harm. Examples include using renewable energy, reducing waste through recycling, and sustainable sourcing of materials.

### **Role of Corporate Law in Sustainability**

#### **Corporate law integrates sustainability through:**

- **Regulations:** Laws like the EU's Green Deal and Environmental Social Governance (ESG) frameworks mandate corporations to adhere to green practices.
- **Disclosure Requirements:** Many jurisdictions require companies to report their environmental impact through sustainability reporting frameworks like the Global Reporting Initiative (GRI).
- **Accountability Mechanisms:** Legal provisions ensure that corporations failing to comply with environmental laws face penalties.

#### **Examples-**

1. **Renewable Energy Initiatives:** Companies like Tesla focus on producing electric vehicles to reduce reliance on fossil fuels. Tesla is a leading example of renewable energy initiatives aimed at reducing reliance on fossil fuels. Through its electric vehicles (EVs), the company provides an alternative to gasoline-powered cars, significantly lowering emissions. Additionally, Tesla's energy storage solutions, like Powerwall and Powerpack, store excess renewable energy, enhancing grid stability and reducing dependence on fossil fuels for backup power. The company's solar products, including solar panels and the Solar Roof, enable clean energy generation for homes and businesses. Tesla's commitment to sustainable manufacturing practices and its goal of creating a fully integrated sustainable energy ecosystem further reinforce its mission to accelerate the global transition to renewable energy.

2. **Sustainable Supply Chains:** Businesses like Unilever commit to sourcing 100% of their agricultural raw materials sustainably. Unilever is a leading example of a company committed to creating sustainable supply chains by sourcing 100% of its agricultural raw materials sustainably. As part of its broader sustainability agenda, Unilever works with farmers, suppliers, and partners to ensure that the raw materials used in its products, such as palm oil, soy, and tea, are grown and harvested using practices that protect the environment, promote biodiversity, and improve the livelihoods of farmers. The company implements initiatives like the *Unilever Sustainable Agriculture Code* and partners with organizations like the Roundtable on Sustainable Palm Oil (RSPO) to ensure responsible sourcing. By making this commitment, Unilever is addressing issues like deforestation, climate change, and social equity, while promoting ethical, transparent, and environmentally friendly sourcing practices across its supply chain.

3. **Zero-Waste Practices:** IKEA aims to use only renewable and recycled materials in its products by 2030. IKEA is committed to achieving zero-waste practices by aiming to use only renewable and recycled materials in its products by 2030. This ambitious goal is part of the company's broader sustainability strategy to reduce its environmental footprint and promote circularity in its product life cycle. IKEA has already begun transitioning to more sustainable materials, such as using sustainable cotton and FSC-certified wood, and is increasing the use of recycled plastic and metal. The company also focuses on designing products that are easier to recycle and reduce waste, such as modular furniture that can be disassembled and repurposed. Additionally, IKEA is working on improving its supply chain by collaborating with suppliers to promote sustainable production practices. This commitment to zero-waste practices reflects IKEA's dedication to creating a more sustainable future and reducing its dependence on virgin resources.

The Integration of sustainability into corporate operations is increasingly mandated by legal frameworks both in India and internationally. Below is a table summarizing current legal requirements for green business practices in these contexts:

Region	Legislation	Requirements	Source
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India	Companies Act, 2013 - Section 135	Mandates companies meeting certain financial thresholds to spend at least 2% of their average net profits from the preceding three years on Corporate Social Responsibility (CSR) activities, including environmental sustainability initiatives.	B. The Change
	Business Responsibility and Sustainability Reporting (BRSR)	Requires the top 1,000 listed companies by market capitalization to disclose their Environmental, Social, and Governance (ESG) activities, emphasizing transparency in sustainability practices. EcoVadis	EcoVadis
	Environment (Protection) Act, 1986	Establishes standards for emissions and effluents, requiring companies to obtain clearances and comply with environmental norms to prevent pollution. India Briefing	India Briefing
European Union	Corporate Sustainability Reporting Directive (CSRD)	It requires companies to publish regular reports on the social and environmental risks they face and how their activities impact people and the environment.	British School of Radiology
	Corporate Sustainability Due Diligence Directive (CSDDD)	Large companies must conduct due diligence to identify, prevent, or mitigate adverse environmental and human rights impacts within their operations and supply chain. European Commission	European Commission
United States	Securities and Exchange Commission (SEC) Climate Disclosure Rule	Proposes that public companies disclose climate-related information, including greenhouse gas emissions and climate-related risks, to inform investors. Deloitte	Deloitte
	California Climate Accountability Package (SB 253 and SB 261)	Requires companies doing business in California with revenues over \$1 billion to disclose their full greenhouse gas inventories and climate-related financial risks. Baker Tilly	Baker Tilly

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These regulations reflect a global trend towards enforcing sustainable business practices through legal means, compelling companies to integrate environmental considerations into their operations and reporting mechanisms.



This image depicts a modern corporate setup where solar panels are being installed on rooftops to promote renewable energy use. The urban environment features a sustainable infrastructure with buildings designed to integrate eco-friendly technologies. Technicians are seen working on the solar panels, symbolizing efforts to reduce the carbon footprint and harness clean energy in a corporate context. Wind turbines in the background reinforce the theme of renewable energy integration. The image shown above clearly depicts the modern corporate setup in India as well as the whole world. The business setup is going to focus on the triple bottom line policy of People, Planet, and Profit which is very important for achieving true sustainable development.



This image showcases a corporate building designed with sustainability in mind. The structure features lush green walls and a rooftop garden filled with plants and trees, highlighting the integration of nature into urban architecture. The use of greenery not only enhances the aesthetic appeal but also improves energy efficiency, reduces the urban heat island effect, and promotes environmental health. The sunlight streaming onto the building further emphasizes the harmony between modern infrastructure and eco-friendly practices.

#### **Objectives of the study-**

1. To analyze the legal frameworks governing sustainability practices in corporations globally.
2. To examine the challenges businesses face in complying with sustainability regulations.
3. To identify the role of corporate law in integrating sustainability into business models.
4. To provide recommendations for enhancing legal mechanisms to support green practices.

#### **Research Methodology-**

This study adopts a qualitative research approach, including:

- **Doctrinal Research:** Analysis of statutory provisions, regulations, and case law related to sustainability in corporate law.
- **Comparative Study:** Examination of legal frameworks in jurisdictions such as the EU, the US, India, and China.
- **Secondary Data Analysis:** Review of reports, scholarly articles, and policy documents.
- **Case Studies:** Evaluation of notable cases of corporate compliance and non-compliance with sustainability mandates.

**Doctrinal research** will examine statutory provisions, regulations, and case law related to sustainability in corporate law, identifying key legal frameworks in jurisdictions such as the EU, the US, India, and China. **A comparative study** will analyze and contrast how sustainability is embedded within corporate legal structures in these diverse regions, assessing the effectiveness of their respective regulatory frameworks. **Secondary**

**data analysis** will involve reviewing scholarly articles, reports, and policy documents to provide a broader context and understanding of the evolution of corporate sustainability laws and their global impact.

The research will also incorporate **case studies** to analyse real-life examples of corporate compliance and non-compliance with sustainability mandates. These case studies will examine instances of both successful corporate sustainability initiatives and failures, illustrating the practical applications and consequences of sustainability laws in corporate settings. This combined methodology will offer a comprehensive understanding of the legal frameworks surrounding corporate sustainability, highlighting challenges, successes, and global variations in the enforcement and impact of sustainability laws.

### Literature Review

Scholars such as Adams and McNicholas (2007) have emphasized the need for standardized sustainability reporting to ensure corporate transparency and accountability. Tricker (2019) highlighted how integrating environmental concerns into governance frameworks enhances corporate resilience. Studies by Wang and Li (2020) have shown the effectiveness of the EU's Green Deal and taxonomy regulations in driving sustainable investments. A study by Bose et al. (2021) revealed gaps in enforcement and the prevalence of greenwashing in corporate sustainability claims.

The influence of the Paris Agreement on national laws has been explored by Gupta and Arora (2022), emphasizing its role in shaping corporate obligations.

### Legal Requirements for Green Business Practices: Indian and Global Context

Legal requirements for green business practices focus on minimizing environmental impact, promoting sustainability, and ensuring that businesses comply with regulations that protect the environment. These laws and regulations are evolving globally and are being implemented in India as well. Below is an overview of key legal requirements in both the Indian and global contexts.

#### Indian Context

##### 1. Environmental Regulations and Permits:

**i. Air and Water Pollution:** In India, the Air (Prevention and Control of Pollution) Act, 1981, and the Water (Prevention and Control of Pollution) Act, 1974 regulate air and water pollution. Businesses need to obtain Consent to Establish and Consent to Operate from state pollution control boards to ensure their operations do not exceed specified pollution limits.

**ii. Environment Protection Act, 1986:** This overarching act empowers the Indian government to set standards for the protection and improvement of the environment, including regulations for waste management, hazardous substances, and pollution control.

##### 2. Waste Management and Recycling:

**i. The Plastic Waste Management Rules (2016):** These rules regulate the use and recycling of plastic materials. Businesses involved in plastic production or use are required to ensure proper disposal or recycling.

**ii. E-Waste Management Rules (2016):** These rules focus on the disposal and recycling of electronic waste. Producers must take responsibility for recycling e-waste through Extended Producer Responsibility (EPR) programs.

**iii. The Solid Waste Management Rules (2016):** These rules mandate that businesses manage their solid waste in an environmentally friendly manner, including segregation, collection, and recycling of waste.

##### 3. Energy Efficiency and Emissions:

**i. Energy Conservation Act, 2001:** Under the Bureau of Energy Efficiency (BEE), this act mandates energy efficiency standards for industries, commercial buildings, and appliances. It encourages the adoption of energy-saving technologies and practices.

**ii. The National Action Plan on Climate Change (NAPCC):** This plan includes initiatives to reduce carbon emissions, enhance energy efficiency, and promote sustainable development, requiring businesses to adopt low-carbon technologies.

#### 4. Sustainability Reporting:

**i. Business Responsibility and Sustainability Report (BRSR):** The Securities and Exchange Board of India (SEBI) has mandated large listed companies to disclose their environmental, social, and governance (ESG) practices under the BRSR framework. This encourages transparency in reporting sustainability efforts.

#### 5. Sustainable Sourcing and Procurement:

**i. The National Forest Policy:** This policy mandates businesses to ensure that raw materials like wood and forest products are sustainably sourced. Businesses need to comply with sourcing regulations to prevent deforestation and overexploitation of natural resources.

#### 6. Circular Economy:

**i. National Resource Efficiency Policy:** This policy aims to promote resource efficiency and circular economy practices. It encourages businesses to adopt sustainable production and consumption patterns, reduce waste, and promote recycling.

### Global Context

#### 1. Environmental Regulations and Permits:

**i. The Paris Agreement (2015):** On a global scale, countries have committed to limiting global warming to below 2°C above pre-industrial levels, with a target of 1.5°C. This has led to regulations requiring businesses to reduce their carbon emissions. Many nations have implemented carbon pricing, emissions caps, or emission trading systems (ETS) to achieve these targets.

**ii. EU Emissions Trading System (EU ETS):** In Europe, businesses in certain sectors must comply with the EU ETS, which caps emissions and allows trading of emission allowances. This aims to reduce greenhouse gas emissions cost-effectively across the European Union.

#### 2. Waste Management and Recycling:

**i. Extended Producer Responsibility (EPR):** In many countries, including the EU and Canada, businesses are required to take responsibility for the lifecycle of their products, including recycling and waste disposal. This includes the **EU Waste Framework Directive** and the **Circular Economy Action Plan**, which aim to reduce waste and increase recycling rates across industries.

**ii. The Basel Convention:** This international treaty controls the transboundary movement of hazardous waste. It impacts businesses involved in the export and import of electronic waste, chemicals, and other hazardous materials.

#### 3. Energy Efficiency and Emissions:

**I. The Clean Energy Standard (USA):** In the United States, businesses in energy-intensive sectors are subject to emissions reduction programs, such as the Clean Energy Standard, which sets renewable energy production targets for utilities.

**ii. The EU Green Deal:** The European Union's Green Deal aims to make Europe the first climate-neutral continent by 2050. It includes policies on clean energy, emissions reductions, and sustainable production practices, which businesses must comply with.

**iii. Carbon Disclosure Project (CDP):** Globally, companies are increasingly required to report their carbon emissions and environmental impacts through platforms like the CDP, which evaluates and discloses climate-related data from corporations to drive sustainability.

#### **4. Sustainability Reporting and Disclosure:**

**i. Global Reporting Initiative (GRI):** Businesses across the globe are encouraged to report their environmental, social, and governance (ESG) activities under the GRI framework. This standard is widely adopted by companies to ensure transparency and accountability in sustainability practices.

**ii. Task Force on Climate-related Financial Disclosures (TCFD):** This global initiative encourages companies to disclose their climate-related risks and strategies. Several stock exchanges, including the London Stock Exchange and Hong Kong Stock Exchange, have adopted TCFD recommendations for mandatory reporting.

#### **5. Sustainable Sourcing and Procurement:**

**i. Roundtable on Sustainable Palm Oil (RSPO):** Global businesses involved in palm oil production are increasingly expected to source palm oil from certified sustainable sources to reduce deforestation and environmental degradation.

**ii. Fair Trade Certification:** Many global companies are required to ensure their products meet fair trade standards, which promote ethical sourcing and sustainability in agricultural and raw materials supply chains.

#### **3. Circular Economy and Resource Efficiency:**

**i. EU Circular Economy Action Plan:** The EU has set ambitious goals for a circular economy, focusing on reducing waste, promoting the reuse and recycling of materials, and extending the lifecycle of products. Businesses operating within the EU must adapt to these regulations, including sustainable product design and waste management practices.

#### **Findings**

Global Trends: Jurisdictions like the EU lead in mandating sustainability disclosures and integrating ESG goals into corporate frameworks. Countries like India and China have made significant strides in enforcing environmental compliance but face challenges in uniform implementation.

#### **Challenges:**

i. Lack of Standardization: Variations in reporting and compliance standards create ambiguity.

ii. Enforcement Gaps: Insufficient penalties and oversight mechanisms hinder effectiveness.

iii. High Costs: Small and medium enterprises (SMEs) struggle with the financial burden of adopting green practices.

iv. Complex Supply Chains: Ensuring sustainability across global supply chains remains a significant challenge.

iv. Role of Corporate Law: Effective legal frameworks can incentivize green practices, impose stricter accountability, and foster innovation in sustainable business models.

#### **Conclusions**

Corporate law plays a critical role in promoting sustainability by mandating green practices and ensuring corporate accountability. However, the lack of uniform global standards and enforcement mechanisms hinders the full realization of sustainable goals. Countries that have adopted stringent laws and disclosure requirements have shown progress, but challenges persist in ensuring compliance and addressing greenwashing. In both the Indian and global contexts, businesses are increasingly required to comply with regulations promoting sustainability. While India has introduced key national laws and policies to manage pollution, waste, energy efficiency, and emissions, the global landscape features broader agreements like the Paris Agreement, EU directives, and international frameworks like the Basel Convention. Businesses operating internationally must navigate these complex regulations, which are designed to encourage greener practices, improve environmental performance, and contribute to long-term sustainability goals.

### Suggestions

**1. Standardized Frameworks:** Develop global sustainability reporting standards to ensure uniformity and comparability. A unified reporting standard would enable investors, regulators, and stakeholders to assess corporate sustainability efforts on an equal footing, fostering accountability and better decision-making. This approach could build on existing frameworks like the Global Reporting Initiative (GRI), integrating them with emerging global standards like the Task Force on Climate-related Financial Disclosures (TCFD), ensuring that companies provide relevant, reliable, and comparable sustainability data.

**2. Stronger Enforcement:** Introduce stricter penalties and enhance monitoring mechanisms to deter non-compliance. Legal frameworks should incorporate clear and robust enforcement measures, including substantial financial penalties and public disclosure of non-compliance. This would act as a deterrent for businesses that might otherwise overlook or circumvent sustainability regulations. Additionally, the implementation of advanced monitoring technologies and dedicated regulatory bodies would ensure ongoing compliance and increase the overall effectiveness of sustainability laws, creating a level playing field for businesses globally.

**3. Incentives for Green Practices:** Provide tax benefits and subsidies to businesses adopting sustainable technologies. Incentives such as tax credits for reducing carbon emissions, grants for renewable energy projects, and financial subsidies for green innovation would encourage businesses to invest in sustainability. These incentives would not only lower the cost burden for companies transitioning to greener practices but also create a competitive advantage for early adopters. By aligning economic incentives with sustainability goals, governments can drive the private sector towards long-term environmental responsibility.

**4. Capacity Building:** Offer training programs for corporate leaders and legal professionals on sustainability regulations. These programs should focus on the latest sustainability trends, regulatory changes, and the legal implications of non-compliance. Equipping corporate executives and legal teams with the knowledge to navigate the evolving regulatory landscape will improve corporate sustainability practices. This capacity building should also include the integration of sustainability into corporate governance frameworks, ensuring that companies can effectively manage risks and opportunities related to environmental and social governance.

**5. Stakeholder Collaboration:** Engage communities, NGOs, and investors in monitoring and promoting sustainability. Collaborative efforts can create more robust monitoring systems, encourage greater corporate transparency, and amplify the impact of sustainability initiatives. For example, partnerships with NGOs can help businesses adopt more sustainable supply chains, while investors can demand stronger ESG disclosures. Communities also play a vital role in holding corporations accountable, ensuring that their operations align with local environmental and social priorities.

**6. Encourage Innovation:** Support research and development in green technologies through legal incentives. legal incentives, such as tax credits or intellectual property protections, for companies and research institutions working on sustainability-related innovations. Governments should create an enabling environment for R&D in areas like renewable energy, carbon capture, sustainable agriculture, and circular economy practices. Supporting these innovations not only advances technological solutions to environmental challenges but also fosters economic growth and job creation in green industries, further promoting long-term sustainability objectives.

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