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Impact of Corporate Governance on Environmental Sustainability

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"Corporate governance" covers a wide variety of issues concerning environmental and financial performance. Corporate financial and non-financial irregularities, as well as poor environmental performance, have prompted the adoption of new corporate accountability and disclosure rules and standards, such as environmental committees and reporting, as well as the appointment of an environmental expert to a company's board of directors." This has resulted in the incorporation of social and environmental factors into corporate management plans, as well as the active participation of corporate governance institutions in the transfer of ownership. In order to address today's environmental difficulties, corporate governance structures and applications must be strong and innovative, as the business sector is more worried about climate issues such as global warming. In addition, strong management is required for every circle of the general public, whether it is in business, political, or general society. of their operations. This article discusses corporate governance and how to strike a balance between economic and social goals, as well as individual interests and community requirements. There is a corporate governance framework in place to increase resource efficiency while also requiring resource stewardship responsibilities. Consumption of environmental and societal inputs is required for economic growth. The exploitation of natural resources has a direct impact on the economy, the environment, and society as a whole. "In all areas of their operations, CSR (Corporate Social Responsibility) is a concept in which businesses assume responsibility for the impact of their operations on consumers, workers, shareholders, communities, and the environment."

Keywords: *corporate governance, corporate social responsibility, economics, social goals.*

INTRODUCTION

It is the responsibility of corporate governance to maintain a balance between economic and social objectives, and between the interests of individuals and the needs of the community. There is a structure of corporate governance in place to improve resource efficiency while simultaneously calling for resource stewardship accountability. Economic growth is only possible when inputs from the environment and society are consumed. Natural resource exploitation has a direct influence on the economy, the environment, and society as a whole. "*CSR (Corporate Social Responsibility) is a concept in which businesses take responsibility for the influence of their operations on consumers, workers, shareholders, communities, and the environment*" in all areas of their operations. Corporate social responsibility is about benefiting all stakeholders, including consumers, workers, and the society at large, rather than just donating haphazardly. Corporate social responsibility (CSR) refers to how corporations run their operations to have a good overall influence on society through "economic, environmental, and social actions". "Corporate Social Responsibility" is concerned with treating a company's or institution's stakeholders ethically or responsibly, according to Michel Hopkins. The term 'ethically or responsibly' relates to how important stakeholders are treated under international standards. Incorporating social and environmental concerns into company operations and relationships with stakeholders on a voluntary basis. The topic of "*corporate governance deals with a wide range of issues related to environmental and financial performance. Corporate financial and non-financial irregularities, as well as poor environmental performance, have prompted the adoption of new rules and standards for corporate accountability and transparency, such as environmental committees and reporting, as well as the appointment of an environmental expert to a company's board of directors*".[1] This has led to the incorporation of social and environmental considerations into corporate management strategies, and corporate governance structures are actively involved in shifting ownership.

Corporate governance structures and applications must be solid and imaginative in order to manage today's environmental problems, as the business sector is more concerned about

[1] Juliet Chung & Dave Michaels, 'ESG Funds Draw SEC Scrutiny' (*The Wall Street Journal,* 16 December 2019) <https://www.wsj.com/articles/esg-funds-draw-sec-scrutiny-11576492201> accessed 08 November 2021

climate issues like global warming. Furthermore, excellent management is necessary for every circle of the general public, whether it is in business, political, or general society. Because it wants to alleviate both external and internal pressure, a strong board participates in more CSR initiatives. "*Environmental reporting serves as a link between management and society, allowing environmental activist organizations and the government to exert less pressure. Furthermore, environmental information disclosures minimize the asymmetry of knowledge between stakeholders and organizations*".Board features like board independence, female involvement, and CSR committees have seen the most significant changes in CG structures. These CG components have a significant impact on the company and country-level decisions regarding environmental and social performance. Different institutional and organizational reasons encourage management to implement a CG strategy that includes stakeholders and shareholders.[2]

IMPACT OF CG ON ENVIRONMENTAL SUSTAINABILITY – THEORETICAL APPROACH

Business sustainability has gone a long way since its inception. Since the beginning of the contemporary environmental movement in the 1960s and the introduction of environmental legislation in the 1970s, it has evolved into a strategic issue driven mostly by market dynamics.[3] Today, more than 90 percent of CEOs believe that sustainability is critical to their "company's success, and companies develop sustainability strategies, market sustainable products, and services, and publish sustainability reports for consumers, investors, activists, and the general public" to learn more about their companies' efforts. There has been much theory that has shed some light on the nexus of CG & ES (Environmental Sustainability).

Agency theory

According to agency theory, the relationship between owners (shareholders) and management is characterized by owners appointing management to serve them most effectively. However,

[2] James S. Coleman, 'Social Capital in the Creation of Human Capital' (1988) 94 American journal of sociology, 95-120

[3] Guler Aras & David Crowther , Governance and sustainability' (2008) 46 (3) Management Decision, 433-448

there is a contradiction between "*the objectives of the owner and the agent since managers are more inclined to dominate corporate policy and strategy to advance their short-term interests than to make long-term judgments*".[4] A board of directors is also responsible for overseeing the "*top management's environmental policy, strategy, investments, and reporting, according to agency theory in terms of monitoring and incentives*".[5] As a result, the ES has a major impact on the firm's long-term decisions and investments in environmental projects, as well as the policies and procedures established by senior management. However, this management may be hesitant to incur expenses, such as research and development expenditures, unless these expenditures are expected to yield an immediate financial benefit; management is more likely to concentrate on short-term investments that will enhance both financial and nonfinancial opportunities. The ES is also seen as an opportunity-driven, open, and trustworthy tool for reducing information asymmetry between intermediaries and property owners, according to critics. Existing agency disputes over environmental decisions can be reduced by ES methods, as well as by management's use of stakeholder advocacy to advocate for their interests. As a result, when corporate governance is better, managers' incentives to participate in ES are greater. It has also been found that owners who hold a substantial amount of a company's stock are more inclined to devote their time to managing the company's performance assessments. Alternatively, outside directors on a board of directors represent shareholders as well as a diverse range of stakeholders by constantly reviewing the company's environmental policy, regulations, and overall performance, among other things. Accordingly, the active participation of a board of directors in ES can help to alleviate the agency problem by monitoring, regulating, and managing management's immediate and long-term objectives and ambitions about the project. As a result, "*ES is a process of social and organizational engagement that varies throughout the country, and organizational management uses it to communicate with people in every situation while reducing agency disputes and expenses*".[6]

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[4] Nabin Baral &Mohan P. Pokharel, 'How sustainability is reflected in the S&P 500 companies strategic documents' (2016) 30(2) Sage E Journal, 122-141

[5] Ataur R. Belal &Stuart Cooper, 'Corporate environmental responsibility and accountability: what chance in vulnerable Bangladesh?' (2015) 33 (C) Critical perspectives on accounting, 44-58

[6] John Bingham, W. Gibb Dyer et al, 'A stakeholder identity orientation approach to corporate social performance in family firms' (2011) 99 (4) Journal of Business ethics, 565-585

Stakeholder Theory

In organizational management and business ethics, the stakeholder theory takes into consideration a variety of constituencies touched by corporate entities, including employees, suppliers, local communities (including customers and suppliers' communities), creditors, and other stakeholders. In the face of increasing demand from many stakeholders for improved environmental performance, investment, policies, and strategies, the ES can serve as a link between stakeholders and management.[7] "*The financial and non-financial performance of an organization ensures that connections between stakeholders and management are solid and trustworthy*". It discusses morality and values in the context of managing a company, such as those connected to "corporate social responsibility, the market economy, and social contract theory", among other topics. An integrated resource-based view and a market-based view of strategy are combined with a socio-political level to form a stakeholder view of strategy. An example of a popular type of stakeholder theory is the normative theory of stakeholder identification, which tries to define the particular stakeholders of a firm and then "evaluate the conditions under which managers treat these parties as stakeholders". As an alternative, "*national and international environmental activist groups push businesses to invest in the domains of pollution technology, environmental technology transfer, and environmental diversity, as well as in environmental management systems and the wise use of natural resources*". A good board helps to alleviate these constraints by ensuring that the organization's interactions with stakeholders are effective and efficient. This includes annual or integrated reports, standalone sustainability, and CSR reports, websites, and brochures, among other things. Stakeholder theory has been successful in challenging traditional analytical frameworks in disciplines such as law, management, and human resources by arguing that stakeholders' demands should be prioritized from the outset of any action.ES techniques help to close the information gap that exists between stakeholders and environmental policy.[8]

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[7] Beiting Cheng, George Serafeim & Ioannis Ioannou, 'Corporate social responsibility and access to finance' (2014) 35(1) Strategic Management Journal, 1-23

[8] Alexander Dahlsrud, 'How corporate social responsibility is defined: an analysis of 37 definitions' (2008) 15(1) Corporate Social Responsibility and Environmental Management, 1-15

Legitimacy Theory

According to "*legitimacy theory, corporations publish social responsibility information to portray a socially responsible image to their stakeholder groups, allowing them to legitimate their actions in the eyes of those groups*". The theory predicts how businesses would behave in terms of preserving the viewpoints of important stakeholders through the sharing of corporate information. Legitimacy theory is predicated on the notion that there exists a social contract between a business and the rest of society. It draws attention to the extent to which corporate social and environmental disclosures are affected by the limitations imposed by society to be appreciated and avoid being penalized by the community in which the firm does its business. It is advocated by this idea that organizations should strive to behave within the boundaries and standards that are recognized by the community.[9] Because of this, management participates in many socially helpful initiatives, or at the very least makes an effort to avoid engaging in actions that are damaging to society and its expectations. Organizations utilize ES as a communication tool with the public and as a way to justify their environmental performance in the eyes of a wide range of stakeholders. Companies' legitimacy is jeopardized when they violate their social commitments, and environmental reporting can be utilized to alleviate some of the demands on them. In the opinion of management, legitimacy not only enhances chances to attract economic resources and decrease risks from external forces, but it also helps to secure social and political support as well.[10]

AMENDMENT CLAUSES IN NEXUS WITH CG AND ENVIRONMENTAL SUSTAINABILITY

The most pivot or crucial component of CG is CSR because it lays the frame on which the whole structure is established. CSR (Corporate Social Responsibility) is a concept in which "*businesses take responsibility for the influence of their operations on consumers, workers, shareholders, communities, and the environment in all areas of their operations*".CSR has a lengthy history, dating

[9] Guler Aras & David Crowther (n 1)
[10] Kurt Desender & Mircea Epure, 'Corporate Governance and Corporate Social Performance: The Influence of Boards, Ownership, and Institutions' (2013) Barcelona Graduate School of Economics

back practically to the dawn of humanity.[11] It is based on Gandhi's "trusteeship idea," in which businesses are viewed as trustees of the resources they take from society and are required to restore them in large amounts. CSR is critical for the long-term growth of all stakeholders (all the people, on whom the business has an impact, including the society at large). CSR proponents say that "*operating with a viewpoint allows firms to generate greater long-term profits, while critics argue that CSR diverts attention away from the economic function of enterprises*". Nonetheless, the value of CSR cannot be overstated. Corporate Social Responsibility is specifically addressed under Section 135(4)[12] of the Companies Act of 2013.

A list of activities that a firm can engage in as part of its CSR initiatives can be found in Schedule VII. "Corporate Social Responsibility (CSR) means and includes, but is not limited to:

"(i)Projects or programs relating to activities specified in Schedule VII to the Act; or

(ii) Projects or programs relating to activities undertaken by the board of directors of a company (Board) by recommendations of the CSR Committee of the Board as per the company's declared CSR Policy, subject to the condition that such policy covers subjects enumerated in Schedule VII."

To be more specific,

"(i) an unlisted public company or a private business covered by subsection (4) of section 135 that is not required to nominate an independent director under sub-section (4) of section 149[13] of the Act may have its CSR Committee without one.

(ii) A private company with only two directors on its Board of Directors shall form its CSR Committee with two such directors;

(iii) a foreign company subject to CSR rules shall form its CSR Committee with at least two persons, one of whom shall be as specified in section 380(1)(d)[14] of the Act and the other shall be nominated by the foreign company."

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[11] *Ibid*

[12] Companies Act, 2013,s 135

[13] Companies Act, 2013, s 149

A list of CSR initiatives or programs that a firm proposes to undertake that come under the ambit of Schedule VII of the Act, together with the methods of implementation. One of the most important and basic steps and programs is to ensure environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry and protection of natural heritage, conservation of natural resources, and maintaining the quality of soil, air, and water.[15]

LOOPHOLES OR PRIMARY CONCERNS OF CG IN NEXUS WITH ES

Corporate governance is the study of the rights and responsibilities of a company's board of directors, shareholders, and other stakeholders, as well as those of the company's management. ES From the Board of Directors' point of view, Corporate Governance Monitoring the CEO, the C-Suite, and all employees are made possible by measuring "*company ethics, anti-competitive activity, corruption, tax, and providing accounting transparency for all stakeholders*". MSCI includes corporate behavior standards and governance of board diversity, CEO compensation, ownership and control, and accounting under the Governance side of the bucket, which the board of directors must monitor on behalf of stakeholders.[16]

Management structure

A company's management structure is included in the value of its stock. It is made up of a set of internal processes and controls. In recent years, there has been a lot of discussion about the power balance between the "CEO and the Board of Directors, particularly the differences between the European and US models". While 80 percent of companies in the "US have a CEO who is also the Chairman of the Board", 90 percent of the largest companies in the UK and Europe split the roles of CEO and Chairman. As a result of this unequal allocation of power, policymakers in the ES and other co-administrative sectors are unaware of how to frame policies.[17]

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[14] Companies Act, 2013, 380

[15] Alexander Dahlsrud (n 8)

[16] *Ibid*

[17] Guler Aras & David Crowther (n 1)

LANDMARK CASES

In the case of ***M.C. Mehta v Union of India***[18], the famous Taj Trapezium Case, in which one of the world's wonders was threatened by acid rain and pollution caused by the Mathura Refineries and other industries that emitted toxic substances into the atmosphere, was resolved in favor of the Union of India. It was in the year 1984 that a Public Interest Litigation was launched, which called for stern action to be done against the offenders who were posing a significant threat to the Taj Mahal as a result of air pollution. The Supreme Court of India issued a historic decision in 1996, prohibiting the use of coal and coke in the industrial sector and recommending that the companies transition to compressed natural gas (CNG). In the case of ***Deepak Nitrate Limited v State of Gujarat***[19], the Supreme Court ruled that responsibility should not be established if there is no connection between the level of fault and the obligation. Compensation should be based on the extent of the harm sustained rather than the capacity of the sector to compensate it.

CONCLUSION

The findings of this study show solid empirical evidence that ownership structures and board features (independence and size) have an influence on the performance of environmental sustainability reporting companies, as a whole. We believe that most corporate governance elements can assist management in monitoring, controlling, and promoting environmental sustainability reporting by 1) "making strategic decisions on social and environmental investments, technological innovation for pollution control, and compliance with international environmental regulations; and 2) supporting long-term environmental initiatives by providing suggestions and directions based on expertise and experience in environmental sustainability reporting. In addition to making contributions to the many stakeholders, the research also makes theoretical and managerial contributions. As far as theorizing goes, we employed a variety of ideas to establish a link between corporate governance and decisions about environmental information sharing. To better understand corporate governance and

[18] *M.C. Mehta v Union of India* (1987) AIR 965
[19] *Deepak Nitrate Limited v State of Gujarat* (2001)

stakeholders, prior research has usually relied on agency and resource dependence theories, as well as legitimacy theories, to examine disclosure procedures in greater depth. Political cost theory was also applied in the explanation of corporate ES, as previously stated. It is specifically concluded that corporations are increasing their participation in ES to decrease political expenses, enhance their economic edge, and safeguard the environment.