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THE ROLE OF COMPLIANCE IN BUSINESS SUSTAINABILITY
A Study of Indian Listed Companies, 2021–2026

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Abstract: *Sustainability is now judged not only by what a company says it values but also by how it manages its risks, records its performance and answers to its stakeholders. Compliance, usually seen as the minimum a firm must do to stay within the law, plays a larger part in this than is generally acknowledged. This paper examines how compliance supports business sustainability in Indian listed companies, using regulatory documents, international standards and research published between 2021 and 2026.*

The study is based entirely on secondary sources and uses thematic analysis. The themes are corporate governance, the quality of ESG data, environmental and social risk management, assurance and value-chain oversight, stakeholder confidence, and the difficulties companies face in implementation. The review finds that compliance improves transparency, fixes responsibility and strengthens internal controls, but that publishing a report does not by itself show that a company has become more sustainable. Recent Indian studies also report mixed financial effects, with gains in market valuation sitting alongside short-term costs.

The paper concludes that compliance is a necessary foundation for business sustainability but not a sufficient one. Its value depends on how seriously it is carried out, how reliable the underlying data are, how well the board oversees it, whether assurance is credible and whether it is tied to the company's strategy.

Key Words : *compliance; business sustainability; corporate governance; ESG; BRSR; Indian listed companies; sustainability reporting; assurance; risk management.*

1. INTRODUCTION

Over the last two decades the idea of a successful company has widened. Profit and growth still matter, but investors, employees, customers, regulators and local communities now also ask how those results were achieved and what they cost the environment and society. A company that earns well but pollutes, mistreats its workers or hides its risks is unlikely to remain viable for long. Business sustainability, in this sense, means the ability of an organization to create value over the long term while managing its economic, environmental, social and governance (ESG) responsibilities.

Compliance is often treated as a routine back-office task: filing returns, renewing licences and meeting deadlines. In practice it is wider than that. It is the set of systems through which a company finds out which laws, standards, contractual commitments and internal policies apply to it, assigns responsibility for meeting them, checks whether they are being met and corrects failures. Legal registers, training, approval controls, internal audit, reporting channels and investigation procedures all belong to this system. When they work well, they prevent misconduct, reduce risk and produce information that others can trust. A policy on paper, however, proves very little. A company can publish a detailed sustainability report and still make slow progress on emissions, worker safety or supplier practices. This paper therefore asks a simple question: how far does compliance actually support business sustainability, and where does it

fall short? The discussion is placed in the Indian setting, where sustainability reporting has recently become a regulatory requirement for large listed companies.

1.1 Background of the Study

Indian listed companies work within several overlapping frameworks. The Companies Act, 2013 requires directors to report on the affairs of the company and, under Section 135, requires companies above specified thresholds of net worth, turnover or profit to set up a Corporate Social Responsibility (CSR) committee and to spend at least two per cent of their average net profit of the preceding three years on CSR activities. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 add continuing disclosure and governance duties for listed entities.

Sustainability reporting was brought into this framework by the Securities and Exchange Board of India (SEBI) in May 2021, when it replaced the earlier Business Responsibility Report with the Business Responsibility and Sustainability Report (BRSR) (SEBI, 2021). The BRSR is built around the nine principles of the National Guidelines on Responsible Business Conduct issued by the Ministry of Corporate Affairs (2019), and it became mandatory for the top 1,000 listed companies by market capitalisation from 2022–23. In July 2023 SEBI added BRSR Core, a smaller set of key indicators under nine ESG attributes, to be accompanied by assurance and, in due course, by disclosures on the value chain (SEBI, 2023). The phase-in dates have been revised since then, so anyone relying on this paper for practical work should check the latest SEBI circulars.

1.2 Need for the Study

Formal compliance and real performance are not the same thing. A firm may meet every reporting requirement and yet do little to cut its environmental footprint, improve employee welfare or check its suppliers. This gap is what makes the subject worth studying. Because BRSR reporting is still fairly new in India, there is limited discussion of how compliance mechanisms should be designed so that reporting leads to actual improvement and not merely to additional paperwork. A review of the available regulatory material and research can help clarify this.

2. LITERATURE REVIEW

2.1 Conceptual and Theoretical Background

The Brundtland Commission defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987). For business, Elkington (1997) turned this into the “triple bottom line”, which asks firms to account for economic, environmental and social performance together. Carroll (1991) described corporate responsibility as a pyramid with economic, legal, ethical and philanthropic layers. In that scheme legal compliance is one layer, essential but not the top one. This is a useful starting point here, because it shows compliance as a base on which other responsibilities rest and not as the whole of responsibility.

Two theories help explain why compliance matters to those outside the firm. Stakeholder theory argues that managers must take into account the interests of all groups affected by the firm and not only those of shareholders (Freeman, 1984). Compliance systems, and the disclosures they produce, are one way of showing that those interests are being looked after. Legitimacy theory suggests that organisations seek society’s approval by operating within accepted norms and expectations (Suchman, 1995). Compliance with laws and reporting standards is a visible sign of such conformity. Both theories also carry a warning: a firm may comply in order to look legitimate without changing how it actually operates. This difference between symbolic and substantive compliance runs through the rest of the paper.

2.2 Governance and Reporting Standards

The G20/OECD Principles of Corporate Governance 2023 treat disclosure, transparency and accountability as important features of sound governance and recognize material sustainability information as relevant to stakeholders (OECD, 2023). This supports the view that compliance can improve the information available to investors and help boards oversee material risks. The Principles are guidance and do not replace Indian law.

The Global Reporting Initiative’s GRI 1: Foundation 2021 lists reporting principles such as accuracy, balance, clarity, comparability, completeness, timeliness and verifiability (GRI, 2021). These indicate that sustainability reporting should be judged by the quality and usefulness of the information given and not by the simple fact that a report has been published.

In India, the BRSR framework created a more structured approach to sustainability disclosure for specified listed entities, and BRSR Core added a defined group of indicators with assurance and value-chain provisions (SEBI, 2021, 2023). These measures set up a formal reporting structure. They do not, on their own, show that environmental or social outcomes have improved.

2.3 Empirical Studies

Recent research adds some caution to the relationship between compliance and performance. Sharma, Kumar and Sahoo (2026), studying Indian listed firms, report that mandatory CSR disclosure is positively associated with return on equity and Tobin's Q but not significantly associated with return on assets, and that results differ across industries. The result therefore depends on the measure of performance used and cannot be read as proof that all compliance improves all outcomes.

Bhaskar, Chortane, Kumar and Pandey (2026) examine mandatory sustainability reporting in India using a quasi-natural experiment. They report improved market-valuation signals together with short-term costs to profitability, and effects that vary across firms. The finding is a reminder that the transparency benefits of reporting and its operating costs should be kept apart, and that disclosure should not be assumed to produce immediate environmental or social improvement.

3. OBJECTIVES :

- To explain the relationship between compliance and business sustainability.
- To review the regulatory and reporting context for Indian listed companies.
- To examine compliance in relation to corporate governance, ESG disclosure, and environmental and social risk management.
- To identify the challenges those limit the effectiveness of sustainability-related compliance.
- To suggest ways of strengthening compliance so that it supports sustainable business practice.

4. RESEARCH METHOD :

4.1 Research Design

The study is qualitative, descriptive and exploratory. It is based on a structured review of secondary sources and on documentary analysis. No questionnaires, interviews or newly collected primary data have been used. The geographical scope is India, with particular reference to listed companies, and the period covered runs from 2021, when BRSR was introduced, to October 2026.

4.2 Sources of Data

Three kinds of sources were used. The first is official material: SEBI circulars, Ministry of Corporate Affairs publications, the Companies Act, 2013 and the SEBI Listing Regulations, 2015. The second is standards and guidance issued by international bodies, namely the OECD and the Global Reporting Initiative. The third is academic literature, including classic works on corporate responsibility and recent peer-reviewed studies on mandatory sustainability disclosure in India. The material was accessed through the official websites of the issuing bodies, publisher platforms and Google Scholar.

A source was included if it dealt with compliance, governance, sustainability disclosure, ESG risk, assurance or accountability and either concerned India or described an international framework relevant to Indian companies. Promotional material without supporting evidence, and sources whose bibliographic details could not be verified, were left out. The principal sources are listed in Appendix A.

4.3 Method of Analysis

The material was read closely and the main points of each source were noted, together with its purpose, method and limitations. These points were then grouped under five themes: **(i)** governance and accountability; **(ii)** sustainability disclosure and data quality; **(iii)** environmental and social risk management; **(iv)** assurance and value-chain practices; and **(v)** stakeholder confidence and implementation challenges. The themes were compared across sources and

interpreted in the light of the theories discussed in Section 3. Statistical testing was not attempted, because the sources are of very different kinds (regulation, guidance and empirical research) and cannot be combined numerically.

5. DISCUSSION :

Since the study rests on secondary sources, this section presents a thematic analysis and not a numerical analysis of respondent data. The interpretations bring together selected regulatory, standards-based and academic evidence. They should not be read as statistical findings for all Indian listed companies.

5.1 Compliance and Corporate Governance

Compliance strengthens governance by making responsibilities clear, defining approval processes and providing channels through which problems can be escalated. Board oversight matters most where sustainability involves long-term risks or a choice between present cost and future resilience. The effect, however, does not come from the mere existence of committees and policies. It depends on whether the board receives reliable information, questions it properly and makes sure that identified problems are resolved.

5.2 Sustainability Reporting and Data Quality

BRSR and related guidance push companies to identify the ESG issues that are relevant to them and to disclose information in a structured form. The quality of that disclosure rests on data controls across departments and sites. Inconsistent reporting boundaries, missing evidence or unexplained changes in the way figures are calculated make it hard to compare one year with another or one company with another. Clear definitions, documentation, and review and approval steps are therefore essential if a report is to be credible.

5.3 Environmental and Social Risk Management

Compliance with environmental and labour requirements helps an organization keep track of permits, workplace safety, waste, emissions and other material risks. It can reduce avoidable violations and encourage better measurement of operations. Even so, legal compliance is a baseline and not a guarantee of good performance. Sustainability asks a company to identify its material impacts, set suitable targets and check whether its practices are producing real improvement.

5.4 Assurance and Value-Chain Responsibility

Assurance can raise confidence in specified sustainability indicators when its scope is clear and the work is done by a qualified and independent provider. It does not guarantee that every sustainability claim is accurate. BRSR Core introduced assurance in stages, starting with the largest companies, as shown in Table 1.

Table 1: Phase-in of assurance on BRSR Core indicators

Financial year	Listed entities covered (by market capitalisation)
2023–24	Top 150
2024–25	Top 250
2025–26	Top 500
2026–27	Top 1,000

Source: SEBI (2023). Later circulars, including SEBI (2024), have revised parts of the framework, particularly the value-chain provisions, so current dates should be confirmed from SEBI's latest circulars.

Companies also have limited visibility over their suppliers and contractors, and this is where many sustainability risks arise. Risk-based due diligence, supplier engagement in proportion to the risk, collection of evidence and procedures for corrective action can improve oversight of the value chain, even where full data are not yet available.

5.5 Stakeholder Confidence and Business Performance

Credible compliance and disclosure help investors, employees, customers and business partners judge how a company handles its responsibilities. The Indian studies reviewed above suggest that the relationship with financial performance differs by measure and may involve a trade-off between reputational gains and compliance costs. It would be too strong to claim that compliance always raises profits or share prices. A more defensible position is that compliance can build trust and support better decisions when the information is reliable and the implementation is meaningful.

5.6 Overall Interpretation

Figure 1 summarizes the reasoning that emerges from the analysis. Compliance systems act on business sustainability mainly through four channels: governance, data quality, risk management, and assurance with value-chain oversight. These channels build stakeholder confidence, which in turn supports long-term sustainability. The strength of each link is conditioned by the quality of implementation, the board's oversight, the reliability of data and the integration of compliance with strategy.

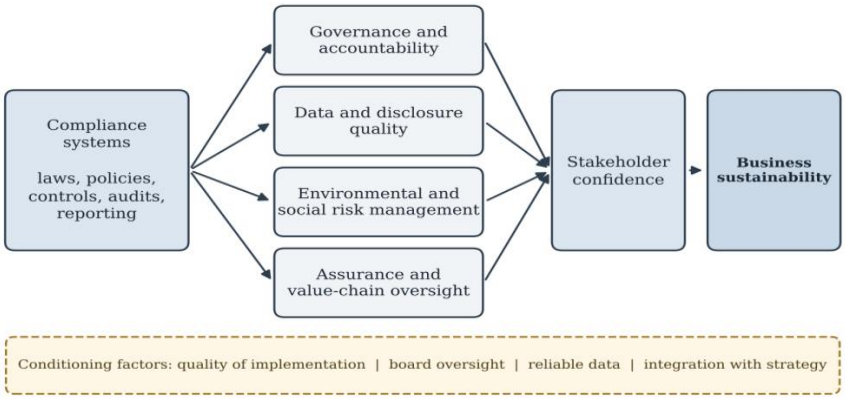


Figure 1: Conceptual framework linking compliance to business sustainability (prepared by the author from the literature reviewed)

The difference between formal and substantive compliance, which was raised in Section 3.1, can be seen in practical terms in Table 2.

Table 2: Formal compliance and substantive compliance compared

Area	Formal compliance	Substantive compliance
Governance	A committee exists and its charter is approved.	The committee meets regularly, questions management and follows issues through to resolution.
Reporting	The report is published on time.	Figures can be traced to evidence, definitions are consistent and limitations are disclosed.
Risk management	Permits are renewed and no notices are received.	Material risks are identified, targets are set and progress is tracked.
Assurance	An assurance statement is obtained.	The scope is clear, the provider is independent and findings lead to action.
Value chain	Suppliers sign a code of conduct.	Due diligence is risk-based and problems lead to corrective action.

6. FINDINGS AND SUGGESTIONS

6.1 Findings

• Compliance **is an enabling mechanism.** It supports sustainability by clarifying obligations, assigning responsibility and strengthening controls.
• Formal **compliance is not enough.** A policy, committee or report does not by itself prove better environmental or social outcomes.
• Report **quality depends on data quality.** Credible disclosure needs clear definitions, evidence trails, review procedures and honest statement of limitations.
• Value**-chain visibility matters.** Risks often arise among suppliers and contractors, so due diligence in proportion to risk is important.
• Performance **effects vary.** Recent empirical evidence shows that the relationship differs across outcome measures and across firms.

6.2 Suggestions for Companies and Boards

• Assign board-level oversight and management ownership for material compliance and sustainability risks.
• Maintain an updated register of obligations, owners, deadlines and supporting evidence.
• Include sustainability compliance in enterprise risk management and business planning.
• Set consistent definitions, documentation and approval controls for ESG disclosures.
• Use internal audit, training and tracking of corrective actions to test whether policies work in practice.
• Report targets, progress, negative outcomes and methodological limitations fairly.

6.3 Suggestions for Regulators and Institutions

• Provide accessible guidance on reporting requirements and on later regulatory changes.
• Encourage consistent definitions and reporting structures without losing material information.
• Support smaller companies and suppliers that have limited reporting resources.
• State clearly what assurance covers and what it does not, so that users know what has and has not been verified.

7. LIMITATIONS AND SCOPE FOR FURTHER RESEARCH

7.1 Limitations

The paper is based on a selected set of secondary sources and does not claim to be an exhaustive systematic review. Official regulations describe what is required but do not show whether companies carry out those requirements well. The study does not collect primary data, estimate how widespread non-compliance is, measure financial returns or establish cause and effect for Indian listed companies. The findings of the empirical studies are reported as their authors present them and are not treated as applying universally. Regulatory details, especially BRSR Core timelines, are also subject to change.

7.2 Scope for Further Research

• Longitudinal studies using verified company disclosures over several years of BRSR reporting, to see how reporting quality changes.
• Sector-specific studies on whether compliance mechanisms are associated with emissions intensity, workplace safety, waste or grievance resolution.
• Comparisons of assurance scope and of how board oversight and organisational culture affect the reliability of reporting.
• Studies of value-chain data problems, with the sample, measures and limitations clearly defined.

8. CONCLUSION

Compliance plays an important part in business sustainability because it provides the processes through which an organisation understands its obligations, monitors risks, discloses information and remains accountable. In India, BRSR and BRSR Core are now significant parts of the reporting environment for listed companies, and the GRI standards and OECD principles offer useful reference points for the quality of reporting and governance.

The central conclusion of the paper is that compliance is an enabling foundation and not a guarantee of sustainable performance. Its contribution depends on implementation, reliable data, meaningful board oversight, employee participation, engagement with the value chain and continuous improvement. Companies need to move beyond checklist-based compliance and build it into strategy, operations and risk management. Because the paper relies on selected secondary sources, broad claims about the effects of compliance across all Indian listed companies need further verification through empirical research.

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