

Artificial Intelligence and Corporate Liability in The Era of ESG Compliance: Challenges and Frameworks

Dr. Ashima Jain

Assistant Professor, School of Law, Manipal University Jaipur, Dehmi Kalan, Jaipur, Rajasthan, India. email:

Ashima.jain08@gmail.com

ABSTRACT

Sustainable practices are essential for a nation to achieve social justice, protect the environment, and grow economically. Examining comparative perspectives on foreign norms and understanding how ESG duties translate into corporate accountability is the main goal of this research. The Companies Act 2013, Sections 135 and 166, SEBI mandates, BRSR-mandated disclosures, and other applicable statutes are consulted in this study of ESG compliance and corporate accountability in India. Efforts to incorporate ESG responsibilities into company mandates should include more stringent liability measures, judicial changes, and ESG reporting requirements if India is serious about closing its recurrent enforcement gaps. Corporate India is under pressure from society, authorities, and investors to adopt ESG principles in their operations. Disparities in company compliance and weak enforcement are among the many obstacles in the ever-changing legal framework governing ESG duties. Machine Analytics, natural language processing, automated due diligence, and predictive risk modelling are crucial tools for compliance, regulation, and maintaining corporate responsibility. The current study also explores the use of AI in ESG compliance monitoring, where it can enhance enforcement, improve risk identification, and promote more active corporate governance. The recommendations examine what India needs: stronger enforcement, greater access to appropriate legal remedies (such as class actions), and adherence to key international standards. The report suggests ways forward, including making ESG reporting more obligatory and imposing harsher fines so that SDG 16 can be achieved further, that is, peace, justice and stronger institutions.

Keywords- ESG, Artificial Intelligence, environment, economic growth, corporate liability, SDG 16

INTRODUCTION

The growth of ESG principles as a legislative standard has driven modern corporate governance and promoted stakeholder-oriented strategies, which encompass environmental sustainability, social responsibility, and fair governance. ESG contrasts with the conventional shareholder-oriented approach for corporate governance. The Indian landscape requires an urgent review and codification of the fragmented laws. The article addresses questions such as whether ESG laws are legally binding as part of corporate responsibility and, hence, aims to address the gaps between formal accountability and real compliance analysis in Indian and International laws.

India's CSR law, found in "Section 135 of the Companies Act 2013", has economic implications. Companies see CSR as something they must do, not as a strategic investment; they don't allocate their resources in ways that benefit shareholders. Firms

are forced to spend on CSR, leading to negative-NPV investments, and it's observed that CSR as a compulsion leads to value destruction and increased compliance costs. Firms with high advertising spend are less adversely affected because CSR complements brand visibility. Firms wish to engage in CSR when it increases their value and when they can do so voluntarily rather than under compulsion. It can be observed that, from the shareholders' point of view, it is a cost, while from the stakeholders' point of view, it is a value (Manchiraju & Rajgopal, 2017).

LEGAL BASIS OF CORPORATE LIABILITY

CSR spending is increasing, and laws and regulations have an effective impact on spending, increasing CSR spending among firms that previously underinvested in social initiatives. The increase in CSR is largely compliance-driven and not intrinsically motivated. Henceforth, although ESG laws are a way forward for changes in

corporate behaviour, they are not seen as improving the quality or impact of such CSR activities, as these activities are regulatory in nature and are complied with when enforcement and monitoring mechanisms are in place (Dharmapala & Khanna, 2018). Weak enforcement and a lack of strategic alignment hinder the effectiveness of achieving social objectives, formal compliance, and substantive impact in ESG regulations.

Henceforth, it is necessary to understand that poorly designed frameworks may lead only to symbolic complaints, rather than meaningful accountability, thereby weakening corporate liability (Mukherjee, Bird, & Duppati, 2018). CSR compliance can also generate capital benefits, as ESG compliance enhances investor confidence and efficiency, thereby further reducing corporate risk (Roy, Rao, & Zhu, 2022).

LIST OF LANDMARK JUDGEMENTS ON THE CONCERNED TITLE:

S.No.	ESG Pillar	Case	Significance
1	Environmental	“M.C.Mehta v. Union of India (Oleum Gas Leak Case)”	The “Absolute Liability Doctrine” states that industries engaged in hazardous activities shall be fully and unconditionally liable for any damage caused, regardless of fault or precautions taken. A social obligation to ensure no harm is caused by their operations, and compensation must be provided as per the enterprise’s capacity. A non-negotiable risk responsibility is created for the enterprises.
2	Environmental	“Indian Council for Enviro Legal Action v. Union of India”	Established the Polluter Pays Principle, requiring polluters to pay for victim compensation and environmental restoration.
3	Environmental	“Vellore Citizens Welfare Forum v. Union of India”	Precautionary Principle and the Principle of Sustainable Development. This made it harder for businesses to prove that what they do is good for the environment.
4	Environmental	“Sterlite Industries (India)Ltd. V. Union of India”	Past environmental harm can also be penalized and there can be continuing liabilities.
5	Social	“People’s Union for Democratic Rights v. Union of India”	Non-payment of wages can exploit labourers, and ESG liability extends even to supply chains and contract labour.
6	Social	“Vishaka v. State of Rajasthan”	Establishment of workplace safety and corporate legal duty.
7	Governance	“Iridium Telecom Ltd. V. Motorola Inc”	Companies can be held liable for fraud and criminal offences, ensuring corporate accountability.

REGULATORY LANDSCAPE

There are various laws in India, but no single centralised Law on ESG. There are various laws, such as those combining corporate law and

environmental law, securities regulation and constitutional law. Some of them are:

1. “Companies Act 2013- Section 135 mandates companies that have a net worth greater than or equal to 500 crores, a turnover greater than or

equal to 1000 crores, or a net profit greater than or equal to 5 crores” to spend 2% of their average net profits (last 3 years) on CSR. Such CSR activities are also listed in Schedule VII. Section 166(2) of the same puts duties on directors to always act in good faith for shareholders, employees, the community and the environment. If the company do not comply, then it can lead to director liability, shareholder claims, mismanagement claims, etc.

2. Environmental Protection Act 1986, where the Government, under Section 3, can set pollution standards, regulate industries, and restrict hazardous activities. No company under Section 7 shall discharge pollutants beyond the prescribed standards, for which imprisonment is also prescribed under the concerned act, thereby creating criminal corporate liability as per Section 15.
3. Water (Prevention and Control of Pollution) Act 1974 As per Section 24, no discharges should be made into water bodies without consent, and industries are required to obtain permission from Pollution Control Boards, thereby introducing a regulatory system.
4. Air (Prevention and Control of Pollution) Act 1981
Section 21 of the act mandates obtaining permission before operating pollution-inducing industries. And industries must comply with prescribed limits. Henceforth, accountability for air pollution is mandated by this act.
5. “The Constitution of India 1950”
Article 48 A enshrines environmental protection. Article 51A (g) requires citizens to protect and improve the natural environment.

“The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations)” require firms to continue disclosing events and risks that can affect investors, including ESG-related matters such as environmental liabilities, labour disputes, or governance failures. Regulation 4(2)(f) incorporates principles of corporate governance, transparency, and ethical conduct to be integrated into business decision-

making. If the company does not disclose all information to SEBI, it could face fines, trading suspensions, and enforcement actions, which could also make the company liable.

The Business Responsibility and Sustainability Report (BRSR) was also introduced in 2021 and requires the top 1,000 listed businesses to provide full disclosures of their ESG practices. It goes beyond narrative reporting and demands quantitative standardised disclosures. Companies will be liable for misleading disclosures if they make false claims.

In 2023, SEBI also added BRSE Core to frame ESG metrics such as carbon emissions intensity, water use, gender diversity, and third-party assurance. This marks a transition from self-declared ESG reporting to auditable compliance, increasing corporate accountability. The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, require companies to issue securities and disclose all material risks in their offer documents. Here are also the PFUTP Regulations, 2003, i.e., “SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations”, which prohibit fraudulent, misleading, or deceptive statements in the securities market. Further ESG considerations are embedded in investment products through the SEBI (Mutual Funds) Regulations, 1996, under which asset management companies are required to define ESG investment strategies, screening criteria, and stewardship policies, and companies must maintain credible ESG practices to attract ESG-focused capital. SEBI ESG Rating Providers Guidelines (2023) guide transparency in rating methodologies, disclosure of conflicts of interest and Proper ESG Scoring practices.

INTERNATIONAL FRAMEWORK

1. Global Reporting Initiative 2000

This is the most used framework for sustainable disclosures around the world. There are rules for key standards.

2. UN Guiding Principles on Business and Human Rights

It contains 31 principles, which are structured under three pillars: duty to protect, corporate

responsibility to respect, and access to remedy. Companies are henceforth required to be due diligent, lessen negative effects, and report them. The framework any company adopts must not violate human rights.

3. OECD Guidelines for Multinational Enterprises 1976

This covers, like, disclosure, human rights, labour, anti-corruption, and rules that require businesses to identify, prevent, mitigate, and monitor negative effects on their operations and supply chains. They are not legally binding, but National Contact Points back them up and offer ways for people to complain about businesses that transgress borders.

4. IFRS Standards for Sustainability Disclosure

The ISSB's IFRS Sustainability Disclosure Standards require companies to disclose any major sustainability-related risks and opportunities that could affect their financial performance. If you give incorrect information, you could be punished under securities law.

5. GRI Standards

The GRI standards are a popular way to report on ESG worldwide and are divided into Universal Standards and Topic Standards. The framework is built on key ideas, including Materiality, Stakeholder Inclusiveness, Sustainability Context, and Completeness. It says that businesses must be open about how their actions affect the economy, environment and society.

6. UN Global Compact

There are 10 principles in the UN Global Compact, organised into four groups: "Human Rights, Labour, Environment, and Anti-Corruption". Businesses must follow these principles, which require them to safeguard the environment, promote and respect human rights, uphold labour standards, and fight corruption. It makes soft law accountability systems.

Transparency is proof that sustainability is becoming a worldwide issue. A new study from SEBI says that more than 1,000 listed businesses in

India must now publish BRSR (Business Responsibility and Sustainability Reporting) disclosures every year. Over 70% of investors worldwide say that sustainability data is an important part of their decision-making process. BRSR helps businesses demonstrate how responsibly they operate by assessing factors such as how effectively they use resources, how well their employees perform, how ethical their governance is, and how effectively they address climate change. (BRSR Reporting)

Adapting to and lessening the effects of climate change, promoting equitable growth, and moving toward a sustainable economy have become key worldwide concerns in recent years. Investors and other interested parties are paying more attention to enterprises that are responsible and environmentally friendly. So, reporting on a company's success on sustainability-related issues is now just as important as reporting on its financial and operational performance.

"SEBI's Circular no. CIR/CFD/CMD/10/2015, dated November 4, 2015, set the rules for how listed companies should report on Environmental, Social, and Governance (ESG) aspects in the Business Responsibility Report (BRR). As a result of the Gazette notification no. "SEBI/LAD-NRO/GN/2021/22 dated May 05, 2021", which amended regulation 34(2)(f) of the LODR Regulations, has introduced new reporting requirements for ESG parameters, called the Business Responsibility and Sustainability Report (BRSR). The BRSR comes with a note that helps organisations understand what information they need to share. Annexure I and Annexure II give more information about the format of the BRSR and the guidance note, respectively. (SEBI Reporting)."

The Current State of BRSR at Corporate India: shows that Indian businesses have come a long way in their ESG reporting. Here are several examples: Representation for differently abled in the workforce: Only 0.5% of the workforce is made up of people with disabilities, which is less than their 2.2% representation of the population as a whole. Energy use: Almost all businesses (96%) reported their energy use for FY 2023. They also used 13%

less energy per dollar of revenue than they did in FY 2022. Most corporations (94%) recorded Scope 1 and Scope 2 emissions, and they also showed a 14% drop in carbon emissions per unit of revenue. External assurance and value chain assessments: These weren't required in FY 2023, but roughly a third of the companies performed external assurance of environmental data, and 25% assessed the environmental effects of their value chains.

Getting goods from MSMEs: Two-thirds of businesses said they got their supplies from micro, small, and medium-sized enterprises (MSMEs). This number went up from 19% in FY 2022 to 22% in FY 2023. "(Current State of Sustainability Reporting at Corporate India)"

AI IN ESG COMPLIANCE MONITORING

(a) Automated Analysis of Disclosures

Natural Language processing techniques have the potential to analyse sustainability reports, securities disclosures, and annual filings to identify errors, omissions, and misleading assertions. They can detect patterns and discrepancies in the quality of ESG risk disclosures. (Berg, Kolbel and Rigbon, 2022)

b) Predictive Compliance

AI algorithms can see signs of higher risks related to the environment, labour or governance. Prediction can be predicted using environmental datasets. AI in governance can enhance anticipatory regulatory ability, refining forecasting and monitoring capabilities. (Wirtz, Weyerer and Geyer, 2019).

c) Greenwashing Detection

AI can analyse sustainability claims, marketing claims, and real disclosures, as well as ESG ratings, and these technologies can assist in identifying differences between what people claim and what they say. Hence, sustainability washing is to be detected both in the legal and investment worlds. (Delmas and Burbano,2011)

d) Data Integrity

Corporate self-reporting has now become part of ESG legislation. AI-powered verification tools can make data validation, anomaly detection, and

technology-enhanced monitoring easier and mitigate the risks of reporting tampering. (Ioannou and Serafeim,2015)

e) Natural Language Model

This can include unsupported assertions about the environment, inconsistent alignment between the story and the measurements, and excessive symbolic reporting. Computational methodologies can identify greenwashing indications (Lyon and Montgomery,2015)

Henceforth, numerous studies have also found that ESG considerations have consistently shaped outcomes, AI now affects such considerations and their measurement of outcomes. (Friede, Busch and Bassen,2015)

CONCLUSION AND SUGGESTIONS

To summarise, the ESG standards represent revolutionary change in corporate governance and represent a transition from a narrow shareholder-centric paradigm to a more inclusive stakeholder-oriented framework/ The Companies Act 2013 and other laws and regulations show that India has made progress in making ESG part of the corporate Governance system, but there are fragmented laws that create overlaps, inconsistencies in enforcement and a lack of consistency in enforcement. Principles like polluter pays have evolved, but these ideas are not fully applied across corporate, environmental, and securities law. Section 135 of the Companies Act 2013, as a legal burden, is more often taken as a legal obligation than as a moral or strategic imperative, which has led to a rise in tick-box compliance. Unequal access to information and a lack of enforcement are present, and the legal burden is opening the door for greenwashing to inflate their ESG performance. It is henceforth required to have a single set of ESG laws that brings together all current rules for business, the environment, and securities. Third-party audits should be required by law to ensure disclosures are made correctly and are trustworthy.

ESG reporting should shift from what companies do to the results they achieve, and establish predefined metrics for impact. Raising awareness and institutional capacity is the need of the hour.



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