Economic Sciences
https://economic-sciences.com
ES(2026) | Vol. 22, No. MIC’26 | Pg:85-91 | ISSN:1505-4683

# ESG Regulations and Business Profitability: A Comparative Analysis of Indian and European Union Frameworks

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***Abstract***

*This paper will analyse the concept of ESG (i.e. Environmental, Social and Governance) regulation law and economic evaluation in India and European Union. the paper will study the impact of ESG on corporate profitability and its long-term value (Dash, 2025) by emphasising on SEBI’s Business Responsibility and Sustainability Report (further refereed as BRSB) framework and EU’S Corporate Sustainability Report Directive (further referred as CSRD) along with 2025-2025 Omnibus revisions to check whether mandating ESG disclosures on companies act as a genuine catalyse for financial performance improvement or acts as a financial burden. The paper will examine all the regulations and recommendations made by EU Omnibus Directive in February 2026 and India Parliamentary standing committee (Finance., 2025) recommendations of August 2025. This paper will further explore the integration of ESG with companies and its correlation with them in a long-term valuation, reduced cost of capital and enhanced stakeholders trust with this volatile economy. However, there are significant challenges like greenwashing, asymmetric compliance capacity between small and large firms, gap between formal disclosures and substantive sustainability integration. This paper will suggest some measures to bridge the gap and foster performance oriented ESG compliance.*

***Keywords:*** *ESG; Company; India; European Union; Greenwashing; Sustainability; BRSR; CSRD.*

## I. INTRODUCTION

There is a global shift towards sustainable corporate governance (Freeman, 1984) and nowadays corporates are not just a profit-making mechanism, but the focus is also on Environment, Social and Governance. The ESG is one of the ethical initiatives for businesses and they have considered it as a central pillar of institutional investment and regulations (India., 2025). ESG now commands the attention of not only businesses but also mainstream institutional investors, regulators like SEBI and corporate boards which run the whole show. The objective of ESG is to maintain a balance of economics and sustainability, where firms are increasingly mandated to reconcile stakeholder interest with traditional fiduciary duties. In India, the Securities and Exchange Board of India (SEBI) has adopted rigorous disclosure mandate which has tightened its Business Responsibility and Sustainability Report (BRSR) framework (Dash A. , 2025), culminating in the BRSR third party verified disclosures. In the European Union, the Corporate Sustainability Reporting Directive (CSRD) (Commission., 2022) has been revised significantly and the 2025-2026 Omnibus process (Commission., Omnibus I Simplification Package (Proposal). European Commission.) has produced a stricter version of sustainability reporting process in the world. This has mandated business to provide a detailed sustainability disclosures which are checked at two primary levels. Both nations aim to quantify the impact of companies on environment and social factors and identify systematic risks. So far this shift in regulations and stringent polies have increased compliances for the businesses but does it also help in improvement of financial positions for a company or is it just an added burden for them? Some studies identify ESG as a long-term value creation and it increases the trust of investors whereas on the other hand the compliance cost and strategic disclosures can impact short term returns negatively. Therefore, there is a prominent controversy over ESG compliance as to improve corporate profitability or does it create additional costs for the companies. This paper seeks to evaluate this and contribute to this debate by providing a systematic comparative analysis of India and EU framework.

## II. RESEARCH QUESTIONS

- The study will check the impact of ESG disclosures (reporting requirements) on companies' market value and profitability in India and EU.
- The study will compare India's Business Responsibility and Sustainability Report (BRSR) framework and European Union, the Corporate Sustainability Reporting Directive (CSRD)- with their implementation requirements and recent amendments and additions.
- The assess relationship between ESG compliance and financial performance of a company with the volatile market in India.

## III. Evolution of ESG Paradigm

Initially the policy was voluntary and more as a philanthropic act side rather than an obligation or a standard reporting regime. But now ESG has a structured, regulated and globally accepted compliance system (Yadav, 2025). But India and European union have tried strengthen their respective ESG Regulations, but the approach of both these nations differ from each other.

### A. The Indian Corporate Social Responsibility (CSR) to Business Responsibility and Sustainability Report (BRSR) Trajectory

In India this ESG framework was evolved from CSR-Corporate Social Responsibility to BRSR.

Table 1:

| Development | Explanation |
|---|---|
| **Companies Act, 2013** | CSR was introduced via companies Act 2013, this was a stepping stone for India as a mechanism to hold listed companies falling under a category to give it back to society and thinking beyond just profit. This shift in approach was important parameter for a society as a whole. It severed a foundational stone with formalizing it in Section 135 of the Act (Government of India. (2013). The Companies Act, 2013). |
| **Requirement for CSR** | The statutory framework of CSR provisions are applicable on those companies whose<br>• Net worth ₹500 crore+,<br>• Turnover ₹1,000 crore+,<br>• or Net profit ₹5 crore+ . |
| **Shift in Focus of companies** | The focus of CSR spending shifted towards sustainability reporting. |
| **BRSR Introduction in 2021 by SEBI** | The real shift arrived when SEBI introduced Business Responsibility Report in 2012, which was later upgraded to a more comprehensive Business Responsibility and Sustainability Report (BRSR) framework. |
| **Mandatory Reporting** | It was mandated for top 1000 listed entities by market capitalization under Regulation 34(2)(f) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 (SEBI., 2015) to follow BRSR reporting. It was compulsory to follow the guidelines mandated by SEBI |
| **Guidelines Alignment with Global Standards** | India tried to bring its ESG reporting system to International standards. |
| **BRSR 2023** | The 2023 introduction of BRSR further tightened standards, mandating reasonable assurance for 42 key performance indicators covering many aspects like greenhouse gas emissions, waste management, gender pay equity, level of water consumption, safety in workplace environment etc (Review., (2025, January)). |
| **March 2025 expansion** | With March 2025 SEBI circular expanded value chain transparency requirements. It also put |

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| | obligations on companies to report ESG information on supplies and customer accounting for 2% or more of total transactions, capped at covering 75% of aggregate procurement and sales value (Rao, 2023). |
| **SEBI’s future plan** | SEBI has signalled plans to expand BRSR Core (Framework, 2023) requirements to the full top 1,000 listed companies by 2027. |

### B. The European Trajectory: from The Non-Financial Reporting Directive (NFRD) to Corporate Sustainability Reporting Directive (CSRD) and Omnibus

Like India, European Union has also gradually strengthened its ESG regulations. The ESG framework started with Non-Financial Reporting Directive (NFRD) in 2014 establishing initial framework for large public interest entities, later it evolved to Corporate Sustainability Reporting Directive (CSRD) and later Omnibus reforms took place.

Table 2:

| Development | Explanation |
|---|---|
| Introduction of Non-Financial Reporting Directive (NFRD) in 2014 | Companies had to disclose non-financial information including environment, social issues etc. |
| Issues with NFRD 2024 | The reporting system was fragmented and the reports submitted by the companies could not be compared. |
| Introduction of CSDR | The CSRD, was formally adopted in November 2022, which represented a transformative expansion-substantially broadening the scope of mandatory sustainability reporting and requiring independent third-party assurance. This significantly expanded the scope of reporting. |
| Double Materiality | Companies have to disclosure how sustainability issues are effecting their business and how the company are affecting society/environment as a whole. |
| Third Party Assurance | It was mandated that the third party will independently verify the submissions. |
| Omnibus Simplification Package | European Commission launched the Omnibus Simplification package in February 2025, responding to sustained pressure from the business community about compliance burdens. The European Parliament and Council reached a provisional agreement in December 2025 (Union., 2026), formally adopted as Directive (EU) 2026/470 (the Omnibus I Directive) on 26 February 2026. |
| Coverage Reduced | The reporting threshold was raised substantially to companies with more than<br>• 1,000 employees and<br>• over €450 million in net annual turnover;<br>Listed SMEs and financial holding companies were removed from mandatory scope, this was a relief to SMEs. |
| Data Requirements Reduced | • ESRS reporting data points were reduced by over 70%<br>• the 'Stop-the-Clock' directive delayed implementation timelines for most companies by two years (Elkington, (1997). ).<br>• Member states are required to transpose the directive's CSRD provisions by 19 March 2027. |
| Objective | While upholding sustainable goals and side by side balancing practical implementation capacity for these entities |

### C. Comparative Regulatory Analysis of India and EU.

Table 3:

| Aspect | India (CSR to BRSR) | European Union (NFRD to CSRD) |
|---|---|---|
| **Initial Framework** | Companies Act, 2013 introduced mandatory CSR obligations for | Non-Financial Reporting Directive (NFRD), 2014 introduced non-financial disclosures. |

Economic Sciences
https://economic-sciences.com
ES(2026) | Vol. 22, No. MIC'26 | Pg:85-91 | ISSN:1505-4683

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| | certain companies. | |
| **Evolution of ESG Reporting** | Shifted gradually from CSR-based reporting to ESG disclosures through BRSR. | Moved from limited sustainability disclosure to detailed mandatory ESG reporting under CSRD. |
| **Major Regulatory Development** | SEBI introduced BRR (2012), BRSR (2021), and BRSR Core (2023). | EU introduced CSRD in 2022 and Omnibus reforms in 2026. |
| **Regulatory Approach** | Developing and expanding ESG disclosure requirements in phases. | Comprehensive and rule-based ESG reporting framework. |
| **Scope of Applicability** | Initially applicable to top 1,000 listed companies; expansion proposed gradually. | Applies to large companies first, with gradual inclusion of SMEs and other entities. |
| **Reporting Requirements** | Disclosure of environmental, social, and governance performance indicators. | Detailed sustainability disclosures under European Sustainability Reporting Standards (ESRS). |
| **Assurance Requirement** | Limited assurance requirements under BRSR Core. | Mandatory independent third-party assurance for sustainability reports. |
| **Primary Objective** | Promote responsible corporate governance and transparency. | Ensure transparency, comparability, and accountability across EU companies. |
| **Current Focus** | Building a structured ESG reporting culture in India. | Simplifying and strengthening an already developed ESG framework. |
| **Key Challenge** | Compliance costs and lack of uniform ESG standards. | Complexity of reporting requirements and administrative burden. |
| **Overall Trend** | Transition from voluntary CSR practices to structured ESG compliance. | Transition from non-financial reporting to legally enforceable sustainability governance. |

## IV. Theoretical Framework

This section of the paper will evaluate the theories which support ESG regulations legally and economically.

***A.*** **Stakeholder Theory and the firm**: The main Idea behind this is that company is not just for shareholders alone. The responsibility of the company is shared and it must balance the competing interests of a broad constituency including employee, customers, shareholders, community, suppliers, natural environment, to ensure its longevity and legitimacy. This theory was given by R. Edward Freeman in 1984, it later on became popular. The focus of the theory is not on shareholders but on stakeholders. The strategic implications of this shift were profound. Corporate governance was reconceptualised as a fundamental component of operational resilience and institutional legitimacy. Businesses that proactively address ESG factors can enhance their reputation, goodwill, attracts responsible investors and mitigate systematic risks- helping transform ethical, sustainable and environmental challenges into genuine opportunities for innovation and value creation. According to Stakeholder Theory ESG regulations compliance is making corporates socially responsible organisations and it promotes such entities.

***B.*** **Triple Bottom Line and Double Materiality**: The triple bottom line (Elkington J. , (Capstone 1997)) framework believes that companies profit should be measured simultaneously by three metrics- economic performance (profit), social impact (people) and environmental performance (earths impact) and not just economic/profit. This conceptual framework underpins both the Indian BRSR framework's nine principle structure which focuses on business responsibility and the EU CSRDs European Reporting Standards i.e. the double materiality approach which focuses on wider sustainability impact focus.

The double materiality concept of EU is that the companies must report on how sustainability issues affect the business financially but also focus on how the company's activities affect people and the environment. Therefore, this dual lens significantly expands the informational scope of mandatory disclosure and has proven one of the most contested elements of the CSRD, with the Omnibus package simplifying but not eliminating the double materiality assessment requirement. Therefore, it can be stated that triple bottom line looks at sustainability with the lens of the three P's: Profit, People and Planet whereas Double Materiality access impact of company and society.

***C.*** **Information Asymmetry and Capital Market Efficiency**: Information Asymmetry is that the investors have incomplete information of companies' sustainability records. From a law and economics perspective, ESG disclosures can be justified as a mechanism to address information asymmetry between investors and companies. Non-financial risks links exposure to climate, labour codes are material long term valuation but they are not captured by conventional financial statements or P&L accounts (Michael Spence, 1973). Mandatory disclosures of these creates a levelled playing fields that enables investors to choose firms with superior ESG profiles and improving overall capital market efficiency. For E.g. If there are two companies, earn same profit and company A: has detailed ESG disclosures and company B: do not disclosure the ESG disclosures Inventors are free to choose company where they can place their trust as company A will attract more investors via its valuation (same profit) and investment attractiveness. Therefore, mandatory ESG disclosures help reduce information asymmetry and, help improve investor confidence in their business and ultimately improve efficiency in the capital markets.

To sum it up, these theoretical foundation of ESG regulation namely 1) Stakeholder Theory, 2) Triple Bottom Line sustainability, and 3) Information Asymmetry and capital market efficiency principles together, these frameworks not only justify mandatory sustainability disclosures by linking transparency in corporates but also takes care of the welfare of the stakeholder (not shareholders), help in improving environmental accountability, and is very much into efficient capital market functioning.

## V. SYSTEMIC CHALLENGES AND CRITICAL PERSPECTIVES

**A. Greenwashing:** Greenwashing is a deceptive practice making false or puffed up claims about environment benefits of a product, service or company via its misleading statements. It is a market tactic that creates a perception that a brand is eco-friendly targeting conscious consumers without actually making any significant or actual changes to their environmental harmful practices or norms (Programme, 2024) It is perhaps the most serious systematic challenge confronting both framework in India and EU. In India a SEDI review found that 41% of corporate sustainability claims were misleading and there was a gap in disclosure volume and disclosure quality. Companies started selective disclosures that just shows the positive ESG achievements in their report and just ignored the negative impacts like labour practices, waste management or governance quality. Both EU and India have introduced stricter disclosures and verification requirements. In the EU context, the EU Green Claims Directive and ESG rating regulations are trying to control the greenwashing. The EU Green Claims Directive, currently in legislative process, seeks to provide a harmonised legal framework for substantiating environmental claims. The EU ESG Ratings Regulation, entering into force on 1 January 2025 and applying from 2 July 2026, requires ESG rating providers to be authorised and supervised by ESMA, addressing the significant potential conflicts of interest in the rating ecosystem. ESG reporting will only be meaningful when disclosures are accurate, verifiable and complete.

1.1 **Metric fragmented and comparability deficits:** There are a number of ESG foundational and standards used globally as well as in India namely: GRI (Global Reporting Initiative), SASB (Sustainability Accounting Standards Board), ISSB (International Sustainability Standard Board), BRSR (Business Responsibility and Sustainability Report), ESRS (European Sustainability Reporting Standard), UN SDG's (United Nations Sustainability Development Goals), TNFD (Task Force on Nature related Financial Disclosures)- these have created different indicators and methodologies, hence creating difficulties in comparing ESG performance of companies and markets. These multiple frameworks create a huge problem as one company may get different ESG rating with different metrics. This lack of standardisation confuses the investor to compare the companies. And if the company is operating in different nations, then it must maintain multiple reporting standards.

For Indian companies with EU operations or European trading partners, the compliance burden is compounded: their Indian subsidiaries must comply with BRSR requirements while parent companies or trading partners deal with CSRD obligations. The phased convergence of BRSR toward ISSB standards, and the CSRD's broad alignment with (while diverging from) ISSB on impact materiality, provides some relief—but substantial inconsistency in metrics, definitions, and reporting boundaries remains. A 2025 GRI-ISSB alignment on GHG emissions methodologies represents progress, but the broader challenge of comparability across jurisdictions requires sustained regulatory dialogue.

## VI CONCLUSION

The comparison of India's BRSR Framework and EU's CSRD have significantly strengthened the reporting requirements. This also reveals a more complex and dynamic landscape in which ESG mandates are simultaneously driving genuine improvements in sustainability performances and generating new challenges when it comes to compliance cost, greenwashing and metric fragmentations (Mayer, 2018). On a more positive side, ESG adoption can very well improve firm value in a long term with better reputation, inculcating more confidence in investors and lower cost of capital. India's progress via BRSR have increased ESG reporting and disclosure culture among the listed companies of the economy.

On another note, the compliance leads to increase in compliance cost which is born by these companies. The BRSR's rapid expansion of compliance culture from under 10% to 88% of top companies publishing sustainability reports in a decade. This represents a genuine transformation in corporate governance norms (World Business Council for Sustainable Development, Measuring Impact Framework (2024)., 2024). However, the gap between formal disclosure and substantive integration remains significant in both jurisdictions. India's assurance ecosystem is structurally inadequate for the compliance demands placed upon it.

Greenwashing risk prevails still, governance is structurally challenges and smaller businesses often face greater compliance difficulties due to limited resources. There are comparability issues regarding different ESG frameworks making cross company and cross-country comparisons difficult. India's rapid growth of ESG reporting

The comparative analysis demonstrates that ESG regulation has evolved beyond a disclosure mechanism into a significant governance tool influencing corporate behaviour and long-term value creation. While both India and the European Union have made substantial progress in strengthening sustainability reporting frameworks, challenges relating to compliance costs, greenwashing, assurance quality, and regulatory fragmentation continue to persist. The study concludes that effective ESG regulation must strike a balance between accountability and practicality, ensuring that

Economic Sciences
https://economic-sciences.com
ES(2026) | Vol. 22, No. MIC'26 | Pg:85-91 | ISSN:1505-4683

sustainability disclosures contribute not merely to regulatory compliance but to genuine and measurable corporate responsibility.

Policy Recommendations

- Strengthen ESG assurance and verification mechanisms.
- Increase transparency to reduce greenwashing.
- Use technology and digital compliance systems.
- Encourage international harmonisation of ESG standards.
- Provide support and flexibility for SMEs.

Hence, ESG framework and regulation should not be viewed merely as a compliance burden for the companies. Instead, it should be viewed as a 'governance tool' that helps promotes transparency, more accountability, sustainable business practices, and long-term corporate value creation by generating goodwill and good practices. The success of ESG frameworks depends on balancing flexibility, business competitiveness, and regulatory rigor while ensuring that genuine sustainability efforts are distinguished from superficial disclosures.

The comparative analysis demonstrates that ESG regulation can contribute to long-term corporate value and sustainability when supported by credible disclosures and effective enforcement. However, challenges such as greenwashing, compliance costs, and fragmented reporting standards continue to require regulatory attention in both India and the European Union

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