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A Study on Rising Importance of ESG in Business World

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Abstract: *Environmental, Social and Governance (ESG) are the regulatory measures framed to encourage business practices concerning sustainability and responsibility. ESG is very crucial for investors to make investment in companies that are really dedicated to considering these issues and possess strong governance practices to address these issues and alleviate the potential risk related with these issues. ESG is a wider concept that comprises social, environmental, and governance factors, whereas CSR chiefly focuses on the social and environmental influence of a company's operations. After Post-Covid 19, global investors have increasingly focused on ESG as they observe Covid-19 as the century's first "sustainability" crisis. As per EY report, 90 per cent of global investors consider a company's ESG performance. In 2020, while investing, eighty-five percent of investors took ESG into consideration. Incorporating ESG principles into business operations is not only just obeys regulatory requirements or appeasing stakeholders but also it is a strategic decision that can initiate long-term success. This paper tries to present what distinguishes ESG from CSR and rising importance of ESG in business world.*

Keywords: Business world, CSR, ESG, importance

I. INTRODUCTION

Environmental, Social and Governance (ESG), in present times, has applicability across the world to every organisation, industry, and sector - both in public or private. These matters should not be viewed separately as they penetrate every aspect of business including strategy, policies, risk, and day-to-day operational considerations. ESG are the regulatory measures framed to encourage business practices concerning sustainability and responsibility. ESG covers a sort of methods and measurements that evaluate businesses in ways other than their financial accomplishments and performance. Some environmental issues such as pollution, climate change, deforestation, waste management, etc. has been emerged. Social issues like inequality, poverty, human rights abuses, and discrimination, whereas governance issues such as regulatory compliance, lack of transparency, corruption, and failure of corporate governance, demand the necessity for the implementation of a strong machinery like ESG in India. ESG is very crucial for investors to make investment in companies that are really dedicated to considering these issues and possess strong governance practices to address these issues and alleviate the potential risk related with these issues.

After Post-Covid 19, global investors have increasingly focused on ESG as they observe Covid-19 as the century's first "sustainability" crisis. As per EY report, 90 per cent of global investors consider a company's ESG. performance, with 86 per cent prioritising corporate decarbonisation in their investment checklists. The system of ESG investing began in the 1960s. It developed from Socially Responsible Investing (SRI), which barred stocks or entire industries from investments in business operations such as tobacco, guns, or goods from conflicted regions. The term ESG, at first, was coined in 2004 by former UN Secretary-General Kofi Annan. It came into force in 2005 with the first study, "Who Cares Wins," developed by the world's largest institutional investors and in association with banks. Now, ESG is growing at a rapid pace and evolving as many investors trying to include ESG factors into the investment process.

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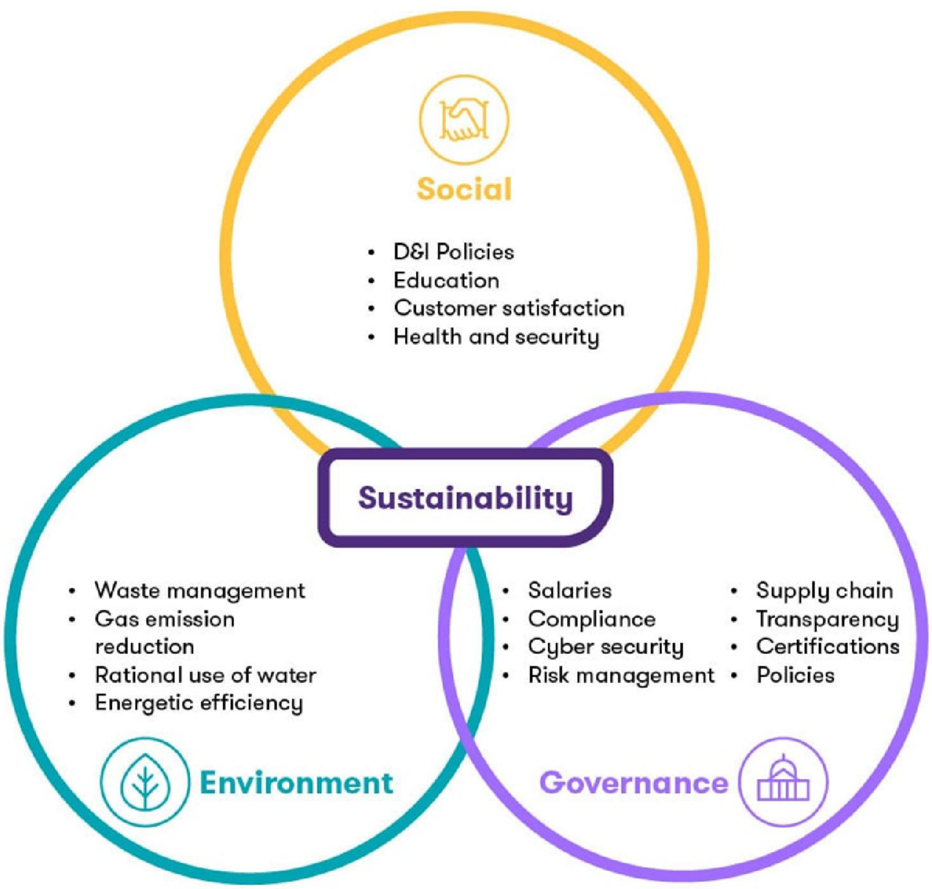
Concept of ESG

The term ESG (where, E stands for Environment, S for Society, and G for Governance) has gained a lot of attention in the corporate world during recent years. Environmental, Social, and Governance (ESG) is the umbrella term that denotes sustainable and responsible finance components. It is a framework that take into account environmental, social, and governance factors along with financial factors while taking investment decisions. It is also a process for evaluating which companies perform or score on each factor E, S, and G while determining whether a company is a feasible investment.

Environmental (E) assessment measures how a company performs as an agent of nature. It examines how its activities show effect on the environment and manages ecological risks. It coversboth direct operations and the supply chain. As for instance, scarcity of resources and how to manage them, preservation of natural resources, emission of greenhouse gases, preservation and treatment of animal resources comes under this factor.

Social (S) criteria deals with the strengths and weaknesses of a company's management towards its relationship with employees, suppliers, customers, and the societies in which it operates. The working conditions, health, safety and diversity of employees, employee relations, and operations of business comes under this criteria.

Governance (G) examines leadership of a company, remuneration of executives, audit, internal control system, and rights of shareholders. Investors want to know whether they can trust the company and what decisions are made behind closed doors. The gender equity or equal pay, bribery and corruption, and board diversity in management comes under this factor.



Source: Grant Thornton Argentina

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CSR

Corporate social responsibility (CSR) is a self-regulating business framework that helps a company be socially accountable to itself, its stakeholders, and the public at large. It is an idea that businesses should operate according to principles and policies that make a positive impact on society and the environment. Companies that engage in CSR are more likely to obtain favourable brand recognition. Moreover, workers are more likely to stay with companies in which they believe. This reduces employee turnover, discontented workers and the total cost of a new employee. CSR initiatives generally come under four types - environmental, ethical, philanthropic and economic.

Objectives of study

1. To study the similarities between CSR and ESG.
2. To study the differences between ESG and CSR.
3. To study main reasons behind the rising importance of ESG in business world.

II. RESEARCH METHODOLOGY

The present study is based mainly on the secondary sources of data which is collected from various websites relating to ESG, CSR and about the rising importance of ESG in business world.

Rationale of the Study

ESG has applicability across the world to every organisation, industry, and sector - both in public or private. According to different studies, investors are now focusing more on ESG. Research from Gartner shows the growing value of ESG to investors. In 2020, while investing, eighty-five percent of investors took ESG into consideration. As per study by Deloitte in 2024, 67 percent of employees consider a company’s commitment towards sustainability and social impact while choosing where to work. Business organizations with positive ESG initiatives can increase brand loyalty and appeal new customers. On the contrary, organizations that follow poor ESG practices responsible for significant damage in reputation.

Similarities between CSR and ESG

Both CSR and ESG are sustainability approaches. Both these prioritize the anxiety for the environment and the society where the company operates. They guarantee respect for people, their community, ethical values and the environment. Both the approaches express these values integrated into the management of the company, irrespective of the market or sector.

A company can implement both CSR and ESG considering them complementary since both cooperate with the management of the organization's influence in its community.

Differences between ESG and CSR

The basic differences between ESG and CSR are as follows:

- Scope: ESG is a wider concept that comprises social, environmental, and governance factors, whereas CSR chiefly focuses on the social and environmental influence of a company’s operations.
- Incorporation: ESG elements are increasingly being combined into investment decisions, CSR, on the other hand, is less commonly used in this perspective.
- Regulatory framework: ESG is becoming increasingly regulated, as many countries and jurisdictions are applying mandatory ESG reporting requirements. While, CSR remains chiefly voluntary.
- Reporting: Many companies are reporting about their ESG performance on their own, whereas CSR reporting is less standardised and not so widely adopted.
- Stakeholder engagement: ESG focuses on stakeholder engagement and considers the benefits of several stakeholders, such as shareholders, employees, customers, and the community. Besides considering stakeholders, CSR may not have the same degree of engagement and emphasis on long-term value creation.

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- Long-term influence: ESG is often perceived as a more comprehensive and long-term approach to sustainability, whereas CSR may not be considered as such a long-term approach to sustainability.
- Motivators: Some external factors such as regulatory compliance for ESG reporting motivates ESG. While, the internal values of a company and its longing to become a better corporate citizen motivates CSR.

Main reasons behind the rising importance of ESG in business world

ESG Investing is a Priority from the viewpoint of Investors

According to different studies, investors are now focusing more on ESG. Research from Gartner shows the growing value of ESG to investors. In 2020, while investing, eighty-five percent of investors took ESG into consideration. Morningstar, an investment research firm, noted that 72 ESG-related shareholder resolutions appeared on proxy ballots, and half of them passed with majority support. Besides, investors are choosing investments that give preference to ESG. A report from Bloomberg in 2021 made an assessment that global ESG assets will surpass $53 trillion USD by 2025.

ESG Regulations

Today, regulations are increasingly emphasizing on the three facets of ESG. The REACH (Registration, Evaluation, Authorisation, and Restriction of Chemicals) Regulation; RoHS (Restriction of Hazardous Substances) Directive; European Union Waste Framework Directive; and TSCA (Toxic Substances Control Act) relate to the environment. The UK Modern Slavery Act, Australia Modern Slavery Act, U.S. Tariff Act of 1930, FAR (Federal Acquisition Regulation), DFARS (Defence Federal Acquisition Regulation Supplement), and many other sections of legislation limit forced labour and report companies' social impacts.

Industry Leaders Are Putting Pressure on the Market

Besides investors and regulators, many international brands have pressurized their suppliers to implement ESG best practices. According to the Carbon Disclosure Project, a non-profit dedicated to reducing carbon emissions, there is a twenty-four percent increase in companies enquiring their suppliers to present report on environmental data. Many prominent companies recognize the risk that direct and indirect suppliers face when they do not have their individual ESG programs.

Scrutiny from the Public and NGOs on ESG Reporting

As per some ESG experts, NGOs take lead role when it comes to ESG. They are exclusively placed to demand more transparency into ESG efforts from corporate world because NGOs have a reputation for being ethical, unbiased, and enthusiastic in their desire for positive societal and environmental change. When NGOs put constant pressure on companies regarding sustainability issues, the civic people pays attention. As per research from PricewaterhouseCoopers in 2021, eighty percent of the public are more prone to buy from a company with a strong reputation for environmental protection and governance, whereas, another 76 percent said they are more likely to buy from a company that has a strong reputation for social issues.

III. FINDINGS

As per study by Deloitte in 2024, 67 percent of employees consider a company's commitment towards sustainability and social impact while choosing where to work. This trend is particularly strong among young generation of workers. Here, 83 percent of millennials and Gen Z employees rank ESG policies as a decisive factor in their employment decisions.

Besides, 86 percent of employees accept that a company having strong sustainability initiatives are indispensable to create a positive workplace culture. Business entities with strong ESG practices show higher levels of employee satisfaction and loyalty. A Glassdoor's survey showed that companies with robust sustainability initiatives report a boost in productivity by 22 percent and an increase in employee retention by 26 percent.

Furthermore, 74 percent of employees have took part in company-organised volunteer activities or sustainability programmes. This active participation leads to strengthen the relation between employees and their employers. It also contributes to a more motivated and productive workforce.

Consumers are gradually becoming more aware about their purchasing decisions. There is a growing demand for brands that show a genuine commitment to sustainability and social responsibility. A report by Nielsen in 2024 revealed that

73 percent of global consumers are agreed to modify their consumption habits in order to decrease their environmental impact. Moreover, 66 percent of consumers are ready to pay more for products of those brands that follow sustainability practices.

Consumers are no longer simple passive observers; they are actively share in driving sustainability. According to research by PwC, 79 percent of consumers are more likely to believe a company that express its progress on social and environmental issues.

Furthermore, 42 percent of consumers have stopped their purchases from brands that do not follow sustainability practices. These statistics highlight the critical role played by ESG in shaping consumer trust and loyalty.

Business organizations with positive ESG initiatives can increase brand loyalty and appeal new customers. On the contrary, organizations that follow poor ESG practices responsible for significant damage in reputation.

IV. CONCLUSION

The rapidly changing landscape is driving businesses to evaluate their purpose and redefine their strategies, products and manner of operation. Businesses need to understand, evaluate and measure their economic, social and environmental impacts now in order to be responsive to the changing future. Whilst the focus on the environmental impact in ESG continues to remain important, the social impact requires much more attention and insightful action. Success and resilience will be measured by businesses' ability to embrace and interconnect the three areas equally. Due to increasing awareness on ESG, it may soon become compulsory. Companies must incorporate this ESG framework at the base of their governance to stand ahead of regulations and competition and get all its advantages. In another viewpoint, organisations that fail to conform with environmental or social factors may face problems in dealing with regulatory, legal, or reputation issues later. Incorporating ESG principles into business operations is not only just obeys regulatory requirements or appeasing stakeholders but also it is a strategic decision that can initiate long-term success. Hence HO (the importance of ESG is rising in business world) is proved and accepted and Ha; (the importance of ESG is not rising in business world) is rejected.

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