

Why is ESG here to stay?

ESG (Environmental, Social, and Governance) principles are here to stay because they address critical aspects of modern business operations that are increasingly prioritized by various stakeholders.

Let's delve into each point:

A. Customer Demand

1. Changing Consumer Preferences:

- Modern consumers are more environmentally and socially conscious. They prefer to support companies that align with their values, focusing on sustainability and ethical practices.
- Millennials and Gen Z, in particular, are driving this trend, as they are willing to pay more for products and services from companies committed to positive environmental and social impact.

2. Brand Loyalty and Reputation:

- Companies with strong ESG commitments often enjoy higher brand loyalty and better reputations. Customers are more likely to trust and remain loyal to brands that demonstrate a commitment to ESG values.
- Social media and instant communication have amplified the impact of customer opinions on brand perception, making ESG adherence crucial for maintaining a positive public image.

3. Business to Business (B2B) Commerce:

- Businesses are increasingly prioritizing suppliers with strong ESG credentials. Companies want to ensure that their supply chain partners adhere to high environmental and social standards to mitigate risks and enhance sustainability.
- Evaluations often include criteria such as carbon footprint, labour practices, and corporate governance structures.

B. Regulatory Compliance

1. Government Regulations:

- Governments worldwide are implementing stricter regulations related to environmental protection, social responsibility, and corporate governance. Companies must comply with these regulations to operate legally and avoid penalties.
- Examples include India's Business Responsibility and Sustainability Report (BRSR), European Union's Green Deal, the U.S. SEC's focus on climate-related disclosures, and various national laws on corporate social responsibility (CSR).

2. Risk Management:

- Regulatory compliance in ESG helps companies manage risks related to legal penalties, operational disruptions, and reputational damage. Adhering to ESG regulations is a proactive measure to mitigate these risks.

C. Export Requirements

1. International Standards and Trade Agreements:

- Many countries have adopted stringent ESG standards for imported goods and services. Companies that want to export must meet these standards to access international markets.
- Trade agreements and global supply chain requirements increasingly include ESG criteria, making compliance essential for maintaining and expanding market access.
- Examples include: EU's Corporate Sustainability Due Diligence Directive (CSDDD), Carbon Border Adjustment Mechanism (CBAM), German Supply Chain Due Diligence Act (LkSG) etc.

2. Competitive Advantage:

- Companies with strong ESG credentials can differentiate themselves in the global marketplace. Meeting export requirements not only ensures compliance but also enhances competitiveness and market appeal.

D. Bank Loans/Investor Requirements

1. Investment Criteria:

- Investors and financial institutions are increasingly incorporating ESG factors into their investment and lending decisions. They view ESG performance as indicative of long-term viability and risk management.
- ESG-focused investment funds and green bonds are growing, driven by demand from institutional and retail investors seeking sustainable investment opportunities.

2. Access to Capital:

- Companies with robust ESG practices can access a broader range of financing options and often benefit from better loan terms, lower borrowing costs, and more favourable investment conditions.
- Financial institutions assess ESG risks as part of their due diligence processes, influencing their lending decisions and investment strategies.

E. Government Incentives

1. Subsidies and Tax Breaks:

- Governments offer various incentives to encourage businesses to adopt sustainable practices. These can include subsidies, tax breaks, grants, and other financial benefits.
- Examples include tax credits for renewable energy investments, grants for sustainable development projects, and subsidies for adopting energy-efficient technologies.
- India has launched Product Linked Incentive (PLI) Scheme. India's PLI scheme's focus on environmental technologies aims to foster a green industrial

revolution by incentivizing the production of renewable energy, electric vehicles, energy-efficient products, and sustainable manufacturing practices.

2. Public-Private Partnerships:

- Governments often collaborate with the private sector on ESG initiatives, providing funding and support for projects that align with public policy goals. These partnerships can drive innovation and development in ESG-related areas.

F. Corporate Reputation

1. Brand Image and Trust:

- B2B companies that demonstrate strong ESG commitments enhance their corporate reputation and build trust with stakeholders, including clients, investors, and the broader community.
- A robust ESG strategy can differentiate a business from its competitors, making it more attractive to potential clients and partners.
- Companies benefiting from government incentives for ESG practices can enhance their reputation and build trust with the public and other stakeholders, further solidifying their market position and societal impact.

2. Stakeholder Expectations:

- Increasingly, stakeholders (including investors, customers, and employees) expect companies to uphold high ESG standards. Failing to meet these expectations can result in loss of business, talent, and investor confidence.
- Transparent ESG reporting and communication are essential to meet these expectations and build long-term relationships.

G. Innovation and Market Opportunities

1. Product and Service Development:

- ESG considerations drive innovation in product and service development. Companies are developing new, sustainable products and services that meet the growing demand for environmentally friendly and socially responsible solutions.
- This focus on sustainability can open new market opportunities and create competitive advantages.

2. Collaborative Initiatives:

- B2B companies are increasingly engaging in collaborative initiatives to address ESG challenges. Partnerships with NGOs, industry groups, and other businesses can lead to shared solutions and enhanced ESG performance.
- Such collaborations can also improve industry standards and foster a culture of sustainability.

In summary, the convergence of customer demand, regulatory compliance, export requirements, financial incentives from banks and investors, and government incentives creates a robust ecosystem that reinforces the importance and permanence of ESG principles in modern business operations.

About the Author

Dr. Ankita Kashyap, Partner- ESG, FSR Management Advisors is an ESG & Strategy Consultant with 11+ years of experience in sustainability, capacity building and research. She has a Ph.D. and M.Phil. in Sustainability.

Her key areas of expertise include: Sustainability/Climate Disclosures, Reporting and Market Evaluation, CDP, DJSI, TCFD Framework, GHG Accounting, Climate Risk & Opportunity Assessment, ESG Alignment and Reporting, Sustainability Branding.