

SUSTAINABLE AND ESG DRIVEN BUSINESS MODEL IN GLOBAL CORPORATE MANAGEMENT – AN OVERVIEW

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ABSTRACT

Sustainable and ESG driven business model integrate Environment, social and governance (ESG) principles into corporate strategy to achieve long-term value creation. Unlike traditional profit-maximization models, ESG-driven models emphasize sustainable growth, ethical governance and stakeholder well-being.

Keywords: ESG, CSR, environmental sustainability, ethics, self-regulation, stakeholders.

INTRODUCTION

For companies of all sizes, environmental, social and governance issues have become key business considerations. Corporate ESG policies and practices are closely watched by investors, employees, customers, government officials and other stakeholders. That makes an effective ESG strategy underpinned by strong management processes increasingly important to long-term business success.

ESG isn't a new phenomenon. The history of ESG investing, in which investors use ESG criteria to help evaluate companies, dates back to the early 2000s. But ESG initiatives in companies have been thrust into the spotlight in recent years because of increasing pressure, from both inside and outside organizations, to improve environmental sustainability and act in socially responsible ways.

Evolution of sustainability in corporate management

The evolution of sustainability in corporate management has transformed from early 20th-century localized environmental concerns and philanthropic acts into a structured, data-driven strategic imperative. Beginning as **Corporate Social Responsibility (CSR)** in the 1950s, the field initially focused on voluntary "giving back" and ethical self-regulation. This matured through the 1970s and 1980s as global environmental awareness and regulatory pressure grew, leading to the introduction of the **Triple Bottom Line** (people, planet, profit) and the concept of sustainable development.

By the early 2000s, the focus shifted toward **Environmental, Social, and Governance (ESG)** metrics, moving sustainability from soloed public relations departments to the core of financial decision-making and risk management. Today, this evolution has culminated in "**ESG 2.0**," where sustainability is no longer an optional add-on but is embedded into corporate DNA to drive innovation, long-term value creation, and measurable global impact.

Importants of ESG

The impact a company can have on its surrounding ecosystem has become vividly clear, whether it's on a global scale or within its local community. At the same time, people have become increasingly concerned about ESG issues such as climate change, human rights and executive compensation. Therefore, embedding sustainability in business is top-of-mind for executives and investors alike in today's eco-conscious business landscape.

Given that stock markets traditionally mirror public sentiment, investors have recalibrated their asset management strategy to focus not only on financial performance but also various ESG factors. Now more than ever, businesses are being scrutinized by institutional investors looking to align their investment strategies with their values—namely their ESG considerations.

ESG investing vs. other investment strategies

Since many investment decisions are influenced by ESG criteria, investors have taken a new approach to asset management. And while they may seem similar, there are a few key distinctions between ESG investing and other strategies such as socially responsible investing (SRI) and impact investing.

ESG investing looks at various ESG factors alongside traditional financial metrics. However, there is an added opportunity and risk management component that factors environmental externalities into a company's valuation. Ultimately, financial returns remain the biggest priority when it comes to ESG investing.

SRI, or sustainable investing, focuses less on financial returns and more on ethical considerations. For instance, an investor may avoid mutual funds or an exchange traded fund (ETF) if one of the companies operates in an industry that's been detrimental to the environment.

Impact investing could be considered the most philanthropic form of investing in which positive results are the highest priority. That means the investment needs to lead to a tangible social good. That could mean investing in an ETF or company that focuses exclusively on renewable energy or is on the path to net-zero operations.

In light of these new investment strategies, multiple ESG funds have sprouted up signaling the growing importance of ESG in today's stock market. For companies, having a comprehensive ESG strategy is no longer a luxury but a requirement, which means organizations must become well-versed in ESG disclosure.

How are ESG metrics disclosed?

Organizations are increasingly including ESG metrics in their annual reports to help stakeholders make more sustainable investment choices. Through ESG reporting, companies can show how they compare to industry benchmarks and targets using qualitative and quantitative data to measure their progress across ESG initiatives. ESG reporting also provides stakeholders with the necessary insights to make informed decisions by highlighting potential ESG risks and opportunities that might affect the company's long-term value.

There are numerous ways to draft an ESG report. Typically, they're created using an established ESG framework that can offer instruction on which ESG topics to focus on. ESG frameworks also help organizations understand how to best structure and prepare information for disclosure so that they can earn a higher rating or ESG score.

An ESG score is used to track a company's ESG performance, providing greater visibility into its operations for investors, stakeholders and regulatory bodies. Organizations that provide more robust ESG reports typically score higher, whereas those that don't track or showcase their ESG performance will often have a lower ESG rating.

The Task Force on Climate-related Financial Disclosure (TCFD) is an organization that provides a set of recommended climate-related disclosures that companies and financial institutions can use to inform shareholders. Similarly, the Sustainability Accounting

Standards Board (SASB) has helped establish and maintain industry-specific standards to guide the disclosure of organizations' sustainability information.

Institutional investors can also look towards organizations like Morningstar, Morgan Stanley Capital International (MSCI) and others to offer up ESG data on certain companies. All these providers play a crucial role in delivering key ESG metrics that can help determine how investible an organization is.

What are ESG regulations?

There are several regulations that have been put forth to help companies take ESG factors into account. For instance, the Corporate Sustainability Reporting Directive (CSRD) is a European Union legislation that requires companies to report on the environmental and sustainable impact of their business activities, as well as their ESG initiatives. The Sustainable Finance Disclosure Regulation (SFDR) aims to do the same by standardizing the reporting of ESG metrics.

Various frameworks have also been created to aid companies in their ESG disclosure. In Europe, the Carbon Disclosure Project (CDP) enables companies to provide environmental information to their stakeholders and consists of risks and opportunity management, environmental targets, as well as strategy and scenario analysis. In that same vein, the Global Reporting Initiative (GRI) provides a global framework that standardizes approaches to materiality, management reporting and disclosure for a full range of ESG issues.

While these regulations and frameworks are designed to steer organizations and investors toward more sustainable business practices, they're not a fool-proof deterrent against greenwashing or green fraud. Nor are they a buffer to a global disruption.

The COVID-19 pandemic quickly exposed the fragility of companies' supply chains, health and financial services, as well as the climate itself. In the face of uncertainty, scholars grew concerned that companies would deprioritize their ESG initiatives to stay afloat. And while this was the case in some instances, an interesting discovery was made: companies that had strong ESG performance were better equipped to weather the pandemic as they had already accounted for the possibility of disruption.

It's a powerful reminder that ESG is more than just metrics, regulations and frameworks. At its core, ESG is an actionable way to measure progress and take steps towards a more sustainable future.

ESG- driven business models

ESG-driven business models integrate **Environmental, Social, and Governance** factors into a company's core strategy to create long-term value and ensure sustainability. Unlike traditional models focused solely on short-term profits, these models treat ESG as a strategic lever to mitigate risks, attract investors, and improve brand reputation.



(a). Environment dimension(E)

In the context of modern corporate management, the **Environmental (E)** dimension has shifted from a focus on "doing less harm" to active **decarbonization and resource regeneration**. It is no longer just about compliance; it is about future-proofing a company against the physical and transition risks of a changing climate.

1. Climate Change & Carbon Footprint

This is the most scrutinized pillar, focusing on a company's contribution to global warming. Management teams now categorize emissions into three distinct "Scopes" to provide full transparency:

- Scope 1: Direct emissions from company-owned sources (e.g., factories, fleet vehicles).
- Scope 2: Indirect emissions from the generation of purchased electricity or heating.
- Scope 3: All other indirect emissions in the value chain (e.g., purchased goods, employee travel, and product end-of-life). This often accounts for over 70% of a company's total footprint.

2. Resource Stewardship & Circularity

Global corporations are moving away from linear consumption models to preserve natural capital. Key focus areas include:

- Water Management: Reducing consumption and improving wastewater treatment, especially in water-stressed regions.
- Waste Reduction: Implementing "Zero Waste to Landfill" policies and redesigning packaging for 100% recyclability.
- Circular Economy: Transitioning to business models where products are designed for durability, repairability, and eventual material recovery.

3. Biodiversity and Land Use

Management is increasingly recognizing that business depends on healthy ecosystems. This involves:

- Deforestation-Free Supply Chains: Ensuring raw materials (like palm oil, soy, or timber) do not contribute to forest loss.

- Nature-Positive Strategies: Actively restoring habitats or investing in "nature-based solutions" to offset ecological impact.

Environmental Metrics at a Glance

Companies use these specific indicators to measure their "E" performance for investors:

Metric	Goal	Strategic Benefit
Energy Intensity	Reducing kWh per unit produced	Lowers operational costs
Renewable Mix	100% transition to green energy	Hedging against fossil fuel price volatility
Carbon Pricing	Using internal "Shadow Prices" (\$/ton)	Prepares for future carbon taxes
Product Lifecycle	Cradle-to-grave impact analysis	Drives R&D and product innovation

(b). Social dimension

In 2026, the **Social (S)** dimension of ESG has transitioned from "philanthropic storytelling" to a rigorous, data-driven operational requirement. It focuses on an organization's relationships with its people—employees, suppliers, customers, and communities—and is increasingly treated as a **financial risk management** issue rather than just a communications exercise.

- DEI & Inclusion:** Beyond simple hiring targets, companies use AI-augmented tools to track diversity metrics across all dimensions and identify pay disparities in real-time.
- Employee Wellbeing:** 2026 marks a shift where mental health and "workplace justice" are integrated directly into HR metrics.
- Upskilling for AI:** A major trend is **equitable AI transition**, where companies invest in upskilling employees to work alongside new technologies to prevent workforce displacement.
- Supply Chain Accountability:** Large firms are legally required to identify and mitigate human rights abuses (e.g., forced labor, child labor) not just in their own operations, but across their entire global value chain.
- Strategic Sourcing:** Procurement teams now integrate "social performance" into vendor evaluations; suppliers who cannot provide verified labor data face exclusion from major contracts.
- Just Transition:** This concept ensures that the "Green Transition" (decarbonization) does not leave workers or communities behind. It requires formal plans for reskilling workers in declining industries (e.g., fossil fuels) into new green or digital roles.

(c). Governance dimensions

In 2026, **Governance (G)** is the "engine room" of the ESG framework. While Environment and Social represent the *what*, Governance defines the *how*—the systems of rules, practices, and processes by which a company is directed and controlled.

Modern governance has shifted from passive box-ticking to **active oversight**, ensuring that sustainability is integrated into every board-level decision.

1. Board Composition & ESG Expertise

The days of generalist boards are over. Institutional investors now demand "ESG-competent" directors.

- **Specialized Committees:** Most global firms now have dedicated Sustainability Committees that report directly to the board.
- **Diversity of Thought:** Governance now prioritizes diversity in gender, ethnicity, and professional background to prevent "groupthink" and better navigate global market complexities.

2. Executive Compensation & Alignment

To ensure ESG targets aren't just "aspirational," they are now being hard-wired into the company's wallet.

- **ESG-Linked Pay:** It is increasingly standard to link a significant portion (15–25%) of executive bonuses and long-term incentives to specific, audited ESG milestones, such as hitting carbon reduction targets or reducing the gender pay gap.

3. Ethics, Transparency, and Anti-Corruption

Governance acts as the primary defense against greenwashing and legal liability.

- **Audit-Ready Data:** Governance structures now treat ESG data with the same rigor as financial data, implementing internal controls that satisfy the International Sustainability Standards Board (ISSB).
- **Political Engagement:** There is a new focus on Corporate Political Responsibility (CPR)—ensuring that a company's lobbying efforts and political donations don't contradict its public sustainability commitments.

4. Shareholder vs. Stakeholder Primacy

Governance models are evolving from focusing solely on shareholder returns to a Stakeholder Model. This involves:

- **Materiality Assessments:** Formally identifying which issues matter most to employees, customers, and local communities, and giving those groups a "voice" in strategic planning.

ESG and financial performance

The relationship between Environmental, Social, and Governance (ESG) performance and corporate financial performance (CFP) is generally positive, though results vary by region, industry, and time horizon. A major meta-analysis of over 1,000 studies found that 58% reported a positive correlation, while only 8% showed a negative one.

Financial Impacts

- ❖ **Operational Performance:** High ESG scores are frequently linked to superior accounting-based metrics such as Return on Assets (ROA) and Return on Equity (ROE).
- ❖ **Cost of Capital:** Strong ESG performance is associated with a lower cost of equity and debt. Investors often view high-ESG firms as lower risk, leading to reduced risk premiums and better access to capital.
- ❖ **ESG Momentum:** Improving a company's ESG score ("momentum") is often a stronger predictor of positive stock returns than a static high score.
- ❖ **Risk Mitigation:** High-ESG firms typically exhibit lower stock price volatility and greater resilience during economic crises, acting as a form of "insurance".

CHALLENGES IN ESG IMPLEMENTATION

Implementing ESG (Environmental, Social, and Governance) principles is a multi-year journey fraught with data, regulatory, and cultural hurdles. As of 2024–2025, businesses face increasing pressure to move beyond "box-ticking" toward audit-ready, strategic integration.

- a) **Regional Fragmentation:** Global companies face conflicting rules, such as the EU's CSRD (which uses "double materiality") versus more finance-centric US or Indian standards (SEBI's BRSR).
- b) **Compliance Deadlines:** Shifting from voluntary to mandatory reporting requires high initial investments in technology and third-party assurance.
- c) **Resistance to Change:** Internal stakeholders often view ESG as a resource-intensive disruption rather than a strategic opportunity.
- d) **Short-Term vs. Long-Term:** Public companies face pressure for quarterly profits, which can conflict with the multi-year investments required for ESG transitions.
- e) **Knowledge Gaps:** There is a severe shortage of qualified ESG professionals to lead these transformations, particularly in SMEs.
- f) **Greenwashing:** Companies face heightened scrutiny and legal penalties for overstating achievements. Even high-severity greenwashing incidents rose by 30% recently.
- g) **Political Backlash:** In regions like the US, "anti-ESG" legislation has created additional legal uncertainty for financial institutions and corporations.

CONCLUSION

In 2026, the conclusion is clear: **ESG is no longer a peripheral "good to have" but a core financial and legal mandate.** Global corporate management has moved past the era of greenwashing into a period of **radical transparency**, where a company's "license to operate" depends on its ability to prove environmental and social value through audited data. The most successful firms are those that stop treating sustainability as a compliance burden and start using it as a **framework for innovation**. By embedding circularity into product design and climate resilience into supply chains, these leaders are securing long-term profitability in a resource-constrained world.

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