SUSTAINABILITY AS STRATEGY: HOW ESG CREATES LONG-TERM BUSINESS VALUE.

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ABSTRACT
Businesses face an array of complex risks and challenges in today's rapidly evolving and highly competitive corporate landscape. Earlier most of the businesses had profit maximization and enhancement of enhancement of shareholder's trust as their primary aim but 21st century saw a paradigm shift. Now the focus of corporations has shifted to contributing positively to the community and the environment. This paper highlights how ESG adoption not only help the businesses to maximize profits but also enhance their brand reputation, efficiency in its operations, stakeholders' confidence and reduce wastage. The paper demonstrates how ESG principles act as a catalyst for transformation in order to mitigate corporate risks. Through the help of case studies of companies like Unilever and Nestlé, this paper delve into the analysis of real world scenario where ESG has lead to business growth. Further the article explores barriers that a corporation might face while attempting to incorporate ESG principles such as evaluating ESG performance, navigating through complex regulatory environment, risks of greenwashing etc. The paper in detail discusses the five links to value creation which includes top-line growth, cost reduction, regulatory and legal interventions, productivity upliftment and investment and asset optimization Along with in detail discussion of the five links to value creation, the strong ESG proposition that links to these 5 links are also discussed in the paper compares the strong and weak ESG Propositions along with examples. In conclusion this paper emphasizes that ESG is not just a mere moral obligation but a strategically driven measure that serves as a prominent actor in driving the companies towards long term, sustainable success.

Keywords: *ESG (Environmental, Social, and Governance); sustainability; corporate social responsibility (CSR); operational efficiency, stakeholder engagement, and risk mitigation.*

INTRODUCTION

In today's dynamic business world, businesses confront many risks. A company's bottom line, stakeholder trust, and long-term viability are all significantly impacted by these risks, which can vary from operational to reputational. To manage and reduce complex challenges, creative and all-encompassing solutions are needed. Blagova et al. (2024), One such innovative tactic that has grown in popularity recently is the incorporation of Environmental, Social, and Governance (ESG) principles into business operations Abdullina et al. (2021). Before 21st century, the majority of firms focused on increasing shareholder value and maximizing profits. These days, corporations' interests have expanded beyond maximizing profits and protecting and advancing the interests of shareholders. In the current situation, investors, customers, employees, and other stakeholders expect businesses to do more than just make money; they also want to make a positive impact on the environment and society Nekhoda et al. (2019). ESG can be broken down into 3 individual components: environment, social, governance.

E: Environmental factors, or the E in ESG, include how much energy and garbage a company uses and emits, how many resources it needs, and how these factors affect living things. Lastly, carbon emissions and climate change are included in E. Every company uses energy and resources, and every company affects and is affected by the environment. Henisz et al. (2019)

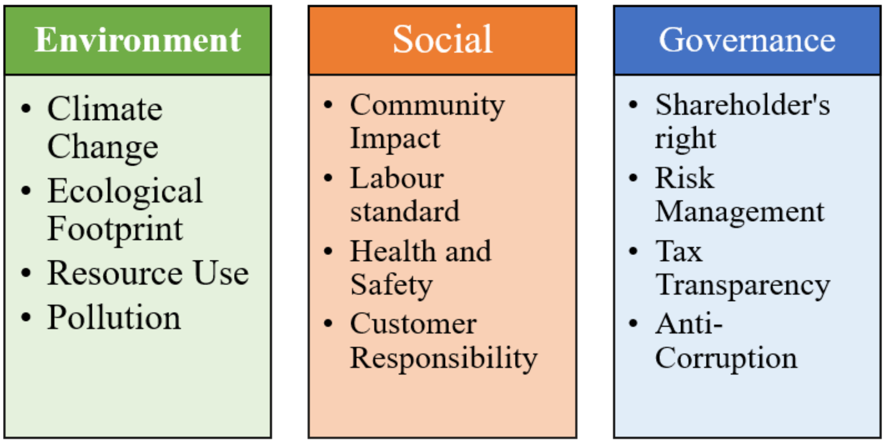
S: Social criteria, or S, are the connections and standing a company builds with people and institutions in the community in which it operates. S discusses labor relations and diversity and inclusion. According to Henisz et al. (2019), every firm operates in a wider, more diverse community.

G: A corporation must establish an internal system of practices, rules, and procedures known as governance that is G in order to manage itself, make decisions, comply with legal requirements, and satisfy external stakeholders. Any firm, which is a legally formed entity in and of itself, needs governance (Henisz et al., 2019).

These various components of ESG are interconnected, much like how it is an integral component of corporate operations. Social considerations, for instance, intersect with environmental considerations and governance when businesses aim to adhere to environmental regulations and more general sustainability issues Henisz et al. (2019). The popularity of ESG-focused investments has skyrocketed. Global investments in sustainable initiatives have reached over $30 trillion, a tenfold rise since 2004 and a 68 percent increase since 2014 sampson et al. (2020). The pace has been aided by CEOs and investors who see that a strong ESG proposal may safeguard a business's long-term profitability as well as by heightened consumer, governmental, and social awareness of the broader effects of businesses. It is clear to see that ESG is not just a new passing trend or a feel-good venture; the financial evidence alone demonstrates that ESG has the potential to greatly diminish business risks. For example, Abdullina et al (2021) explained that when organisations emphasise environmental sustainability, they can reduce costs associated with energy consumption and waste disposal. On a similar note, Besshaposhnyy et al (2023) noted that companies that emphasise social responsibility have the ability to develop strong relationships with their communities and create a sense of loyalty from their customers. Finally, Moroz et al (2021) outlined the positive impacts that result from implementing effective governance practices; such as providing organisations with better transparency, accountability and opportunities for long-term success. Despite these positive aspects of ESG, there are significant hurdles that may hinder the successful implementation of ESG by an organisation through the integration process. The organisation must have a broad array of stakeholders actively participating, a commitment from top management, and business structures that are substantially different from those of the traditional business model. Ultimately, organisations that adopt the ESG strategy will experience a range of benefits (both tangible and intangible) which will position them for success in this challenged and fast-moving business environment.

This article presents case studies of businesses that have effectively incorporated ESG principles, delves deeper into the changing environment of corporate risks, and examines the ESG transformation process.

Figure 1 ESG Framework



REVIEW OF LITERATURE

In the past years, researchers have studied the Environmental, Social, and Governance (ESG) principles as the emerging guidelines for responsible and sustainable business practices extensively. In recent years, ESG has developed into more than just a reporting framework for transparency based on a corporation's practices. Still, rather also as a strategic framework for building long-term value for shareholders. Nevertheless, there continues to be significant gaps between theory

and practice regarding ESG principles as there is a need for conceptual clarity and empirical validity for ESG in the literature. This paper will help to address the literature gaps in ESG. This paper by Li et al., (2021) serves as an extensive bibliometric and systematic review of the existing literature relating to ESG. In their review, Li et al., cited the growing relevance of ESG but provided no clear guidelines or best practices regarding ESG for corporate corporations but provided primarily publication metrics and general thematic trends. Li et al., did however provide some insights on the integrated nature of the three ESG dimensions; however, the lack of a detailed analysis on how each of the three dimensions interacts with one another for benchmarking and ranking purposes of leading businesses was evident in the analysis. The empirical evaluation of the link between management systems and ESG scores, conducted by Ronalter et al., (2022) discovered that firms with strong management systems outperform on ESG metrics, especially in the areas of environmental and social dimension. However, the authors did not provide an assessment of the association between these improved ESG scores relating to financial viability in the long term and competitive advantage.
Blagova et al. (2024) used a risk-based approach to examine how ESG can help reduce risks related to operations, compliance, and reputation. Their evaluation of how ESG promotes restructuring of organisations was strengthened by including case studies on Tesla and Microsoft. However, they did not assess the opportunities that ESG may provide for achieving strategic growth, stakeholder loyalty, or innovation; rather, their evaluation was primarily focused on achieving risk avoidance. Henisz et al. (2019) researched five methods used by ESG for creating value. The five methods are: 1.) Topline growth, 2.) Reducing costs, 3.) Reducing regulatory 4 Legal risk, 4.) Employee productivity, and 5) Investment optimization. The failure of the framework to provide case based evidence and or narrative accounts from firms, particularly from emerging markets, decreases the effectiveness of the framework.

Hazaea et al. (2021) examined sustainability assurance and emphasized the need for reliable, independent verification of ESG disclosures. Importantly, evidence provided by Hazaea et al. suggests that while assurance and audit processes are critical to the successful implementation of ESG practices, there is a large gap in how the assurance and audit processes have been applied and how they have been effective in developing economies. In other words, assurance was not viewed as an essential element of the ESG transformation process but rather as an afterthought.

One of the key limitations of current literature is that there is an imbalance between the three pillar's levels of attention when it comes to ESG. As Li et al. explain, social dimensions (human rights, community development and employee well-being) have received little attention in the strategic discussion regarding ESG, whereas governance and environmental have received substantial academic scrutiny.

This paper purports to fill these research gaps by utilizing ESG as both a strategic framework and an operational philosophy, in order to create tangible and measurable business value. In addition, instead of emphasizing ESG as either solely a reporting mechanism or a compliance function, this paper will present ESG as a sustainable competitive advantage. Finally, the case studies of Unilever and Nestlé will provide empirical evidence of the connection between successful ESG practices and increased profitability, lowered carbon footprint and enhanced relationships with critical stakeholders, as well as innovative growth.

The next phase of this study expands the relationship between E, S & G into an integrated approach to measure how these factors will either positively affect perceived and actual performance when used together versus measuring them separately. An enhanced focus on the reliability and credibility of ESG rather than ESG performance measurement metrics. Unlike other studies which had previously considered assurance as a secondary consideration, this study considers third-party verification as an important driver of the transformation for companies using ESG to enhance investor trust and firm legitimacy.

METHODOLOGY

This research was descriptive in nature and relied solely on secondary data to evaluate how businesses are currently utilizing Environmental, Social and Governance (ESG) principles in their operations. Throughout the research, the researcher complemented the findings of other researchers with case studies on companies like Unilever and Nestlé to illustrate the transformative results of implementing ESG principles and the increase in profitability.

The research was designed to measure how ESG operating performance links to profitability in addition to providing verifiable evidence as to how much value can be created from implementing ESG initiatives, with Unilever's sustainable brands being responsible for 75% of Unilever's growth being one example. Furthermore, the research also evaluated the five value creation mechanisms related to ESG operating performance by demonstrating leading examples of companies that performed well relative to ESG initiatives (or "The Power of Great ESG Performance") versus other companies that did not perform well with regard to their ESG initiatives (or "The Pitfalls of Poor ESG Performance"), referencing data on the top line, bottom line, regulatory compliance, productivity, and investment/asset utilization.

The research also examined certain challenges businesses may face in adopting ESG principles such as how to measure ESG performance, navigating complex legal/regulatory environments, as well as how to mitigate risks related to greenwashing. Finally, the research presents ways businesses can mitigate these challenges and effectively use ESG principles to achieve long-term success.

THE PROCEDURE FOR ESG TRANSFORMATION

For contemporary companies, integrating ESG principles throughout their business operations is no longer simply a trend; it has become a necessity, and as such, they must take a strategic approach when considering how to implement change in all aspects of their business—from day-to-day activities to organizational mission statements. In this section we will identify and assess the processes and components that comprise this transformation.

Evaluation and Benchmarking: Companies must assess their current ESG performance before embarking on the ESG transition. Assessing current ESG performance includes a thorough review of policies, practices and results for all three ESG factors (Environmental Sustainability, Governance, and Social Responsibility). Comparing to other companies or industry standards can provide valuable information on company strengths and weaknesses (Vannoni and Ciotti, 2020).

Stakeholder Engagement: ESG initiatives typically involve more than just an organization's own internal processes; they are also a way of creating connections between the organisation itself and a variety of external stakeholder groups such as communities, employees, investors and customers. Engaging with both groups enables organisations to derive different perspectives, identify important priorities and share best practices. For example, through discussions with employees, a company's employee base could define areas of improvement such as workplace safety or diversity, while through discussions with investors, a company would be able to gather information on the level of transparency they require from the company with respect to its operations (Blagova et al., 2024).

Defining Clear Goals: Companies understanding the ESG landscape and stake holder's expectation are able to set smart goals, in other words specific, measurable, attainable, relevant, and time-bound goals. Examples include specific carbon reduction or gender parity in the leadership bench Besshaposhnyy et al. (2023), Vannoni and Ciotti (2020).

Embedding ESG into business strategy: Instead of a separate initiative, it needs to be embedded into the overall business strategy. Then, ESG targets become aligned with business goals so that they reinforce each other. Thus, a company entering new markets can focus on sustainable sourcing in order to minimize environmental impact while appealing to environmentally conscious consumers. Abdullina et al. (2021).

Implementation and Execution: Following the establishment of specific goals, the next stage is implementation. This refers to the application of programs, rules, and practices that enhance ESG performance. This can take the shape of funding community development initiatives, sustainable energy investments, or even the establishment of robust corporate governance frameworks. All organizational levels, including senior leadership and staff, must be committed to it.Abdullin et al. (2021), Xiao and Shailer (2022).

Monitoring and reporting: The ESG transformation process is iterative. It is necessary to monitor continuously, as that help track success, identify obstacles, and adjust plans as necessary. Reporting with transparency on global standard, such as GRI or the SASB, can increase credibility and trust from stakeholder Blagova et al. (2024).

Continuous Improvement: The ESG landscape is always dynamic, with new problems and possibilities arising. Companies need to focus on continual improvement and follow the changing trends, technology, and best practices. This way, their ESG plan stays relevant, effective, and delivers stakeholder expectations Blagova et al. (2024).

Figure 2 7 steps to ESG transformation

This transformation process involving ESG, although complex, has a very big advantage over others. Not only preventing risks, but it would also be beneficial for innovative activities, furthering of market opportunities, and increases in brand value along with developing long-term strengths. For businesses, that increasingly evaluate long term success, integrating ESG is crucial: taking not only financial performance into consideration but also the social and environmental factor.

ESG AND SYSTEM ASSURANCE

Globally, the topic of sustainability is becoming more and more important Alshbili et al. (2021); Liu et al. (2021); Orazalin and Mahmood(2019). In recent years, the UN Intergovernmental Panel on Climate Change's (IPCC) work on environmental laws and regulations and global warming has advanced quickly. In order to achieve a sustainable form of capitalism, the rate of change keeps accelerating. Publicly reported corporate environmental disasters have also raised community pressure for improved company behaviour Kamran et al. (2021); Liu et al. (2021); Roberts et al. 2021a, 2021b; Shad et al. 2020). The need for more environmental activities and information has grown as a result of this development. Furthermore, questions about how business affects the environment and society have raised demand for and need for transparency on all matters pertaining to corporate activity Kamran et al. (2021); Khan et al. (2021). ESG is not anymore treated as a secondary concern by the business rather it is has become a significant obligation for the business to abide by the ESG norms and regulations. Now ESG is firmly accommodated into the operational and strategic frameworks of businesses. In respect to this, system assurance facilitated by the implementation of structured management systems and independent verification processes, has come up as a fundamental enabler of ESG performance, enhancing transparency, accountability, and organizational risk mitigation.

Theoretical foundations: Systems thinking and stakeholder theory

According to the growing stakeholder focus on Corporate Sustainable Performance (CSP), businesses must consider the interests of various parties with a stake in the company's social and financial performance in addition to fulfilling their duties to shareholders in order to succeed Donaldson and Preston, (1995). The concept of ESG is linked to a variety of stakeholders, including suppliers, employees, shareholders, and society La Fuente et al., (2021); Muñoz-Torres et al., (2019). It is also consistent with the idea of management systems (MS), which seek to satisfy the needs of specific stakeholders (as stated in the standards that underpin the MSs). Stakeholder theory, which goes beyond simply maximizing the wealth of owners, is the foundation of this study since it acknowledges "any group or individual who is affected by or can affect the achievement of an organization's objectives" Freeman,(1984).

Freeman's (1984) stakeholder theory is a pragmatic approach to strategy that urges companies to comprehend their relationships with all stakeholders to improve their chances of success (Laplume et al., 2008; Lee and Isa, 2020). According to studies on CSP at the moment, the stakeholder theory appears to be the most frequently accepted theory (Daugaard and Ding, 2022).

According to Daugaard and Ding (2022), stakeholder theory is intimately associated with legitimacy and institutional theories "in the sense that only those with legitimate claims and institutional identification can be considered stakeholders."

Therefore, it should be acknowledged that:

- Different stakeholders have varying degrees of influence over companies;
- Some stakeholders have greater influence than others; and
- Companies may not view all stakeholders as legitimate stakeholders.
- According to Friedman and Miles (2002), stakeholder/organization relationships are dynamic and vulnerable to change.

Companies need to understand the governance, social, and environmental concerns associated with stakeholders and utilize the proper business instruments to serve them in order to achieve long-term corporate success Ronalter et al. (2022).

Role of management systems (QMS and EMS) in ESG performance

According to Mahesh and Kumar (2016), MSs are a series of steps that must be taken in order to satisfy certain stakeholder expectations. They strive to continuously enhance operations and processes (Robson et al. (2007); Sampaio et al. 2009) and systematically address stakeholders' needs in internal and external organizational contexts (Poltronieri et al. 2018; Rebello et al. 2016). Depending on their goal, MSs can be categorized as quality, environmental, or occupational health and safety (OHS) systems (Jørgensen et al., 2006).

National and international organizations, such as the International Organization for Standardization (ISO), create and publish MSSs (Karapetrovic and Jonker, 2003). The most popular and approved MSSs worldwide are ISO 9001 for QMSs and ISO 14001 for EMSs (2021). According to Nanda (2005), quality management systems (QMS) incorporate quality assurance, control, planning, and improvement into an organization's activities. Conversely, the environmental management system (EMS) uses waste reduction and process/product redesign to increase businesses' environmental responsibility and competitiveness (Watson et al., 2004).

Quality management systems (QMS) and environmental management systems (EMSs) are effective instruments for improving ESG performance. Descriptive and cluster studies show that companies with QMSs and/or EMSs have significantly higher ESG scores than those without such systems.

ESG assurance and risk mitigation

ESG assurance acts as a formidable mechanism helping the companies to enhance their credibility, reliability and effectiveness of their ESG disclosures. Assurance practices not only help the businesses in reinforcing transparency and integrity of their sustainability reports but it also contributes to organization’s accountability, planning and governance azaea et al. (2021).

Assurance practices facilitate in assessing the risks related to ESG through a quantifiable method, with performance linked indicators. These metrics helps the organizations to adopt to a evidence based approach of identifying risks and mitigating them rather than a narrative one. This form of evidence based, quantifiable risk assessment enhances the organizations responsiveness to material sustainability issues and fosters a more resilient operational model Hazaea et al. (2021).

The involvement of a third-party assurance team in order to validate the authenticity of disclosed ESG data is equally crucial as it helps in enhancing the stakeholder confidence. The third party involvement does not only strengthen transparency but also contributes to corporate legitimacy. Hazaea et al., (2021).

In addition, sustainability assurance act as a bridge between ESG goals and internal governance for risk management. When the assurance processes are aligned with internal audit functions and corporate control systems they support in instilling sustainability within enterprise-wide decision making process. This in turn promotes high accountability across all the levels of organization and makes sure that the ESG targets are consistently monitored, reviewed and refined through formal governance mechanism. Hazaea et al. (2021), Chiang and Torng (2015).

By embedding the ESG assurance with established frameworks like 14001 and AA1000AS, organizations can have a holistic and proactive approach to sustainability with reduced environmental, social and regulatory risks and at the same time strengthening business's long term sustainability goals and stakeholder's value. Hazaea et al. (2021).

CHALLENGES IN INCORPORATING ESG NORMS

These days, a company's brand and how investors and other stakeholder groups including consumers, suppliers, and the community perceive it are highly influenced by its ESG framework. But putting an ESG program into action isn't always easy. Emerging challenges may arise for organizations implementing and monitoring ESG in their supply and value chains. Here are few challenges that an organization might face while incorporating ESG norms.

Driving Cultural Transformation: ESG integration into a business demands not only performance metrices but also attitude and mindset changes in employees. Employees, stakeholders, and customers need to understand what the company's core values are and how sustainability plays into its operations. When the employees understand the importance and benefits of ESG, they are more likely to fit into and contribute to the company's sustainable goals Paridhi et al. (2024).

Building Collaborative Partnerships: Because the scope of ESG is so broad, companies often struggle to manage and measure it on their own, especially for larger companies. Partnerships play a critical role here. Active collaboration and consistent communication with the supplier and customers are needed to ensure accurate metrices and progress toward ESG goals throughout the supply and value chains. Companies, Stakeholders, employees and investors must have open dialogue on climate and ESG issues to improve understanding and drive progress. Organizations can work together to meet long-term sustainability goals. Wang (2024)

Forming Partnerships: Many businesses are unable to manage or measure ESG on their own, and it is a vast area to monitor, particularly for larger organizations. Partnerships become crucial in this situation. Businesses will never be able to determine their precise metrics or meet ESG targets unless they maintain constant communication with suppliers and customers throughout their supply and value chain. Companies, agencies, employees, stakeholders, and investors must work together, communicate more, and have candid discussions on climate and ESG factors with others in order to improve awareness and comprehension of these factors. Together, we can accomplish more and realize organizations' long-term sustainability objectives. Paridhi et al., (2024)

Embracing Various Reporting Frameworks: Recognizing the multitude of issues related to Global ESG Reporting issues, especially for multinational corporations that have to adapt to several systems, one of the issues is the lack of universally acceptable frameworks. Depending on organization complexity and geographic deployment, Deloitte has reported that many organizations effectively adopt more than one framework at a time. The other set of standards which also gained a lot of traction are the Global Reporting Initiative (GRI) and the Sustainable Accounting Standards Board (SASB). Historically companies have been filing their ESG-focused performance information with their traditional sustainability reports but they are also using web-based platforms which are becoming more popular and as such, provide up-to-date information on ESG performance Wang, (2024).

Overcoming Barriers Created by Regulations: On many occasions, the process of sustainability reporting is affected by a set of complicated and changing regulations. There is evidence of a shift towards more comprehensive jurisdictions which require more detailed disclosures. There are initiatives aimed at creating standardization in the way companies disclose their environmental responsibility; this is expected to commence in 2024. For instance, in some jurisdictions, such as the European Union, the law requires large publicly held companies to provide information on how their activities affect the environment and society as well as the risks and opportunities associated with that. Wang, (2024)

Difficult Data Administration: ESG can cover a wide range of subjects, including environmental issues, CEO remuneration, and diversity programs. Executives must so gather information from all business divisions, including the financial and non-financial ones. Data for many firms is often dispersed over multiple disconnected systems in addition to the planning and reporting systems. In these cases, the entire process is done by hand utilizing spreadsheets and exporting large volumes of data, which could lead to errors, slow down the process, or even endanger the business. Furthermore, it could be difficult to navigate the reporting environment because disclosure criteria are often changing. Naturally, there is debate on nomenclature and meanings, which makes this challenging. Wang, (2024)

Recognizing the effects of ESG programs: ESG performance data is helpful for enhancing the impact and results of ESG plans and strategies, even outside of reporting requirements. However, a lot of organizations have siloed ESG data, which makes it hard to link the financial impact of ESG action to its impact. Leaders and decision-makers cannot test scenarios to understand how an ESG action can affect the balance sheet, PandL, or cash flow in order to further improve the strategy if ESG data is not included in the same platform as the budgeting, planning, and financial data. Leaders are essentially relying on conjecture if they fail to link ESG reporting to ESG planning. Jamison et al., (2024)

ESG'S 5 LINKS TO VALUE CREATION

Although the components of ESG can be viewed as the foundation for any sustainability-related efforts framework, their significance may differ from one industry, sector, or geographic region to another. All the same, all five factors should be considered regardless of the nature of the company's business or its geographical location.

This will drive topline's growth: New market penetration and growth in the existing ones can be achieved with the help of a strong ESG framework. When corporate actors win the trust of the regulatory authorities, chances are high that they will also win the access, rights, and licenses for the purposes of expansion. Also, ESG strategies can modify the behaviour of customers. According to McKinsey's research, around 70% of the buyers in industries such as automotive, electronics, construction, and packaging are ready to pay an extra 5% for a sustainable product without compromising on performance. However, variations exist as in some cases, consumers do not want to pay a premium. Dorobantu et al. (2014).

Lowering of Operating Costs: The incorporation of ESG practices emphasizes saving costs incurred through high operational expenses such as the prices of raw materials, carbon and water. A McKinsey report suggests the ability to manage these elements can have a bearing on operational profits of up to 60%. Henisz et al. (2019).

Reduction of Regulatory as well as Litigation Exposure: An efficiently designed as well as implemented ESG strategy helps in reducing the risk of unfavourable regulatory actions as well as increases the degree of strategic autonomy of a firm. More effective ESG processes across industries and regions reportedly help in mitigating risks regarding government interference, and even gaining government assistance in certain situations. Henisz et al. (2019).

Increasing Employees Engagement and Productivity: Companies that successfully implement the ESG strategy have a better chance of getting and keeping productive employees while at the same time increasing the employee engagement and productivity rate. Connecting appropriate employees with the right ESG initiatives provides them with a job fulfillment unlike any other, and studies indicate that satisfied employees tend to return more value to the organization. Field studies have also demonstrated that where society is involved and the company does something good for it, employees become more eager and involved. Henisz et al. (2019).

Enhancing Investments and Asset value: Effective Holders of stakeholders' interest in the ESG-ESI focus of a business begets more eco-investments enhancing eco-collaborations in the organisation towards zero waste or investment in renewable esources. It also helps to reduce classifying investment or exposure to arms established in environmentally sensitive areas where the performance is expected to decline, as in tankers of oil. Henisz et al. (2019).

CASE STUDY

Unilever – ESG-Driven Business Transformation

Overview of ESG Strategy

Sustainability has been placed at the center of Unilever's corporate strategy for some time now. The Unilever Sustainable Living Plan has been in place for more than a decade, and in 2023, the company launched the Growth Action Plan 2030 (GAP 2030), which has ESG as one of two main "platforms" (the other being innovation) that support the business's operations. In GAP 2030, Unilever's sustainability agenda is principally focused on four priority areas: Climate, Nature, Plastics, and Livelihoods. In these four areas, the company can leverage its scale to create a positive impact by setting both ambitious short- and medium-term objectives. For example, Unilever has a Science Based Target Initiative (SBTi) approved goal of 100% absolute reduction of Scope 1 and 2 GHG emissions by 2030 (relative to 2015) and the company has set similar science-based targets for Scope 3 emissions. The CEO of Unilever describes sustainability as a "strategic imperative" and as a key component of the GAP 2030 plan. To accomplish its objectives and goals, Unilever has restructured around its "Power Brands" (approximately 30 of its leading brands) and has allocated an estimated €987 million to research and development to support innovation and growth. In addition, Unilever will apply sustainable sourcing, energy efficiency, and circular design to its entire product portfolio. Essentially, Unilever's ESG strategy is integrated into its business: Unilever will align ESG goals (eg, net zero, regenerative agriculture, and living wages) with commercial objectives (eg, brand growth and operational excellence) to achieve long-term value creation. (Unilever, 2024)

Key ESG Initiatives and Quantitative Impact

In 2022-2024, Unilever has implemented numerous programs in its four main priorities, each with a measurable impact. Regarding Climate, its Climate Transition Action Plan was approved by its Shareholders in 2024 and requires Unilever to achieve net-zero value chain emissions by 2039. As of the end of 2024, Unilever's reported 72% (for 2015) reduction of Scope 1 and 2 emissions exceeded the goal of 70% reduction by 2025. Unilever is also reporting environmental reductions within Scope 3 emissions: FLAG (Forest, Land and Agriculture) GHG emissions have

decreased by 14% compared to 2021 levels and energy/industrial Scope 3 emissions have decreased by 8% versus 2021. Key initiatives driving these results include aggressive energy efficiency measures within Unilever's manufacturing plants; electrification of thermal processes; purchase of renewable energy; and a Supplier Climate Programme which supports key raw material suppliers to develop their own SBTi targets. An example of this can be seen with Unilever's oleochemicals Refinery in Indonesia, where the process started to purchase biomethane to offset newly generated emissions will take place in 2024. (Unilever, 2024) Unilever's commitment to enhancing and preserving the natural world alongside our responsibilities to manage land responsibly is embodied through its commitment to protecting and restoring ecosystems. Our goal is to implement regenerative agricultural practices on 1 million hectares by 2030, our progress to date includes ~140,000 ha across 24 projects. In addition, we have begun restoring 1 million hectares of colonized/rehabilitated ecosystems by way of our 425,000 ha across 14 projects to date. Unilever's total percentage of Deforestation-free sourcing (Palm Oil, Tea, Soybean, Cocoa, Paper/Board) reached 97%, while 79% of Unilever's major crop resources were certified to use sustainable sourcing (RA/Sustainability standards) as of 2024. These procurement practices will decrease exposure to supply chain risk and improve practices in regenerative agriculture. (Unilever, 2024)
Unilever is aiming to decrease its virgin plastic consumption in its Plastic Packaging. They have made a commitment to reduce virgin plastic consumption by 30% by 2026 based on the baseline of the 2019 year-ending total volume. In addition to cutting down on virgin plastic, Unilever is working to have all packaging either reusable, recyclable or compostable by 2030 for rigid packaging & by 2035 for flexible packaging. By the end of 2024, Unilever is expected to achieve a reduction of 23% in its virgin plastic consumption compared to the 2019 baseline through lightweight design & the use of more recycled materials across their entire product portfolio. Currently, 21% of all plastics in Unilever's portfolio have been made from recycled materials. Unilever has also developed new designs for its Vaseline bottle with recyclable pumps. Unilever is one of the founding members of the Global Plastics Treaty Coalition. (Unilever, 2024)

With the aim to support people in its value chain, Unilever is focused on "Livelihoods & Inclusive Growth" using its Living Wage Policy (which was globally accredited in 2020, and re-accredited for 2024) as well as by encouraging suppliers to sign the Living Wage Promise. The company has set 2026 targets of reaching 250,000 smallholder farmers through training/regenerative programs (0.08 million reached by 2024) and enabling 2.5 million micro-retailers to build their businesses (2.58 million already supported by 2024). These activities are building supply chain resilience, through the use of digital commerce platforms and last-mile distribution, and opening up new markets. Unilever also funds various community initiatives (such as women's safety and fair recruitment) and survey results show that the company has achieved 87% employee pride and 79% engagement in its internal surveys; illustrating its overall "responsible business" agenda. Overall, Unilever's ESG initiatives have achieved substantial quantitative results (for example, by achieving double-digit improvements to both its emissions and plastics metrics and millions of people have benefitted from them), while remaining aligned with the company's overall strategic goals. (Unilever, 2024)

Unilever's ESG Initiatives to the Five Links to Value Creation

Unilever's ESG (Environment, Social and Governance) efforts align with McKinsey's five ways to create value through sustainability. Top lines (top line revenue) will benefit from innovation and brand position from the sustainability effort. Unilever's Power Brands, (brands with some form of sustainability) outperformed all other brands in 2024 and represented 75% of Unilever turnover and grew sales by 5.3% underlying sales growth. New product innovation, such as the development of plant-based foods and organic personal care products, will capture trends and create a premium market. The majority of brands created through this process will have higher levels of loyalty based on consumer insight as compared to the rest of the competitive set allowing for Unilever to maintain volume growth (underlying volume +2.9% in 2024) while competitors increased pricing.

Table 1 Mapping of Unilever's ESG Initiatives to the Five Links to Value Creation

ESG Value Creation Link	Key ESG Initiatives (2022–2025)	Quantitative Evidence / KPIs	Business Impact and Value Creation
Top-line Growth	Sustainable “Power Brands” strategy; innovation in plant-based foods, health & wellbeing, and low-impact home care products	Sustainable brands contributed over 75% of Unilever's underlying sales growth in recent years; Power Brands delivered 5.3% underlying sales growth in 2024 (Unilever, 2024)	Strengthened brand equity, increased customer loyalty, and enabled premium pricing; ESG-aligned products drove market share gains in beauty, nutrition, and home care segments
Cost Reduction	Energy efficiency programs; transition to renewable electricity; reduction in virgin plastic usage;	72% reduction in Scope 1 & 2 emissions vs. 2015 baseline by 2024; 23% reduction in virgin plastic use vs.	Lower energy and material costs, reduced exposure to fossil fuel price volatility, and operational efficiencies through waste reduction and

	circular packaging design	2019 baseline (Unilever, 2024)	lightweight packaging
Regulatory and Legal Risk Mitigation	Climate Transition Action Plan (CTAP); deforestation-free sourcing; compliance with EU and global ESG regulations	97% deforestation-free sourcing across key commodities; SBTi-validated emissions targets; strong shareholder approval of CTAP in 2024 (Unilever, 2024; Reuters, 2024)	Reduced exposure to regulatory penalties, litigation, and supply chain disruptions; strengthened "license to operate" in regulated markets
Employee Productivity & Engagement	Living Wage policy; diversity and inclusion initiatives; workforce wellbeing and safety programs	87% employee pride and 79% engagement score reported in 2024; Living Wage accreditation renewed globally (Unilever, 2024)	Improved talent retention, higher workforce motivation, and productivity gains; enhanced employer branding in competitive labor markets
Investment & Asset Optimisation	Capital allocation toward sustainable innovation; regenerative agriculture; digital supply chain and distribution platforms	Nearly €1 billion in R&D investment focused on sustainable products and processes; regenerative agriculture programs expanded to 130,000+ hectares by 2024 (Unilever, 2024)	Optimized long-term asset value, reduced stranded-asset risk, improved supply chain resilience, and increased attractiveness to ESG-focused investors

Nestlé – ESG as a Risk Mitigation and Value Creation Mechanism

Overview of ESG and Sustainability Strategy

Nestlé is taking an integrated approach to Environmental, Social, and Governance (ESG) by using its long-term Creating Shared Value (CSV) principles that have been a major part of its business philosophy, which state that' on the one hand, businesses benefit from pursuing a CSV strategy, and on the other, positive impacts on society result from being a responsible business.' As one of the world's largest food and beverage companies, Nestlé has committed to integrating social and environmental goals into its core strategy as essential drivers of long-term competitiveness. The company's ESG strategy focuses on four main pillars: Healthy Nutrition (improving people's diets and overall health); Climate Action (committed to decarbonizing its own operations and supply chain); Environmental Stewardship (committed to ensuring that its operations do not negatively impact the environment); and Social Inclusion (i.e. committed to respecting human rights, improving livelihoods, and creating a diverse workforce). Nestlé has committed to achieving Science-Based Targets for net-zero emissions by 2050, along with interim targets (e.g. a 50% reduction in emissions by 2030); 100% of its global electricity must be renewable, and deforestation-free raw materials will be used to produce all of the products within Nestlé's primary supply chain. In Nestlé's 2024 non-financial report, the company states that sustainable development is at the "core" of its strategy, and that the company is responsible for ensuring that ESG is integrated into its business practices, and that the board of directors has been appointed by the company pursuant to the laws of Switzerland to oversee the company's ESG initiatives. (Nestlé, 2024)

Key ESG Initiatives and Quantitative Impact.

Nestlé has been involved with a wide variety of programs recently, resulting in significant results. Nestlé was able to achieve an aggressive reduction in its GHG footprint. From the beginning of the year up to and including the end of 2024, Nestlé achieved a total of a 13.5 % reduction in total GHG emissions (Scopes 1-3) relative to the 2018 baseline and approximately a 21% reduction in methane emissions (primarily from dairy) over the same period. 94 % of the emissions reductions achieved in 2023 resulted from measures taken at industrial facilities and throughout the supply chain. Nestlé has reported that approximately 91.9 % of the electricity it procures internationally is now derived from renewable sources due to large investments in solar, wind and hydro projects. Nestlé has built a 600-hectare solar park in Texas (one of the largest on-site solar farms in the world) and converted the boilers in many of its factories to biogas, reducing Scope 1/2 energy emissions (Nestlé, 2024). It is worth noting that Nestlé is continuing to develop its MAPS (Methodology and Guidelines for Measuring Sustainable Livestock Production) project, and its climate strategy continues to have credibility, as the Science-Based Targets Initiative has recognized and validated Nestlé's net-zero roadmap as well as its specific FLAG (Forest, Land and Agriculture) Goals for 2030 and 2050. (Nestlé, 2024). Nestlé concentrates on regenerative agriculture and deforestation within its supply chains. As of December 2023, 93.5% of Nestlé's sourced primary commodities (such as meat, palm oil, pulp/paper, soy, sugar, coffee and cocoa) are deforestation free. Nestlé has also increased its regenerative agriculture programme: as at end-2023, approximately 15.2% of its key ingredient (by volume) sourcing is from farmers who use regenerative agricultural techniques (e.g., cover crops and reduced tillage) versus nearly zero a few years ago; and Nestlé targets to expand these to 20% by 2025. With regard to cocoa and coffee sourcing specifically, Nestlé implements the Nescafé Plan and AAA (coffee) programmes, as well as the Cocoa Plan to improve the livelihoods of millions of farmers through education on climate-smart practices. These activities reduce on-farm emissions (such as through lower chemical fertilizer inputs and animal enteric (methane) emissions) whilst improving soil health and increasing the soil's ability to retain water. Additionally, Nestlé conserves high-biodiversity areas – for example, through its afforestation projects in Brazil, Colombia and Côte d'Ivoire, (to name a few), wherein through replanting efforts of approximately 14.7 million trees, it has improved ecosystem services in its respective value chains. (Nestlé, 2024)

Nestlé has implemented factory efficiencies and packaging innovations in order to promote circularity and save freshwater resources through water and packaging. In 2023, Nestlé reported that it achieved an absolute water savings of approximately 3 million m^3 through projects such as the recycling and reuse of filter and cooling loop improvements (against a 2021–2023 target of 6 million m^3). Currently, Nestlé has active watershed partnerships to continue securing water access in stressed areas of the world. In terms of packaging, Nestlé's goal is for >95% of its packaging design to be recyclable by 2025. As of 2024, 86.4% of Nestlé's global plastic packaging is designed to be recyclable, with a 21.3% reduction in the use of virgin plastic since 2018. For example, Nestlé Canada is transitioning its Smarties candy packaging from plastic to recyclable paper tubes. These efforts will help Nestlé reduce the costs associated with waste and comply with the upcoming plastic legislation. (Nestlé, 2024). Nestlé has already made progress towards increasing the efficiency of factories and the sustainability of packaging by reducing water consumption and introducing new recycled materials. As of the end of 2023, Nestlé has saved approximately ~3 million m^3 of water in their operations (against a target of 6 million m^3 from 2021 to 2023) through recycling initiatives and re-use projects (for example, through improving filtration systems and upgrading cooling loop systems). Furthermore, Nestlé continues to build partnerships within watersheds to ensure secure access to water in locations where this is threatened by geopolitics, climate change, and other reasons. In terms of packaging design efforts, Nestlé aims to have >95% of all packaging be recyclable by 2025. According to estimates provided by Nestlé, as of December 2023, 86.4% of its globally distributed plastic packaging is now designed to be recyclable, and virgin plastic usage has dropped by 21.3% compared to 2018 levels. One specific example is Nestlé Canada's decision to switch its Smarties candy to be packaged in tubes made of recycled paper. All of these steps will help reduce landfill costs and meet new regulations related to plastics. (Nestlé, 2024). Nestlé has made an increased commitment in terms of investing in healthy products and in developing programs for healthy communities. In addition to Nestlé's existing commitment to the nutrition wellness category of products, it recently set a target sales goal of CHF 20-25 billion (approximately a

50% increase) by 2030 for "nutritious" products as compared to sales from 2022. Nestlé also devoted its R&D resources to create healthier options for food and beverage consumers. Additionally, Nestlé has expanded its Nutrition, Health, and Science division by providing approximately 132.0 billion servings of fortified staple foods (KPIs) and by fortifying staple foods with micronutrients (which help prevent disease).Nestlé is committed to building more than 1 million rural wells so that families have access to safe drinking water and employ young adults (over 10.2 million since 2017) through women's income employment programs, thereby providing opportunities for job creation and increasing family incomes in rural communities. In conjunction with enforcing a Fair Wage Policy and conducting independent audits of its workforce to ensure compliance with internationally recognized human rights standards, these social initiatives will help improve rural families' incomes and create talent development opportunities in the sourcing countries which are the source of raw materials for Nestlé, and will help reduce the social risk associated with sourcing in these communities. (Nestlé, 2024). The cumulative effect of Nestlé's ESG initiatives on the company financially is measurable and statistically significant: reduced greenhouse gas emissions (-13.5% net), renewable energy sources at a high percentage (91.9%); sourcing almost entirely deforestation free volumes (93.5%), increasing the amount of regenerative agriculture volume as a percentage (15.2%); significant waste reduction (plastic footprint -21% since 2018); and conducting large scale nutrition interventions (over 132 billion servings of fortified products). Almost all of these statistics can be substantiated as EJY verified, and are referenced within Nestlé's 2023/24 reports (Nestlé, 2024). Collectively these data reflect that Nestlé is likely to achieve or exceed its ESG objectives while executing its core business strategy. (Nestlé, 2024)

Nestlé's ESG Initiatives to the Five Links to Value Creation

Nestlé's activities related to environmental, social, and governance (ESG) can create value for the company through each of the 5 pathways. Nestlé uses ESG as part of the strategy for growing revenues by entering new markets and building brand equity. For example, health & wellness trends are a key focus area of Nestlé's product strategy (e.g., sales of plant-based alternatives such as Garden Gourmet, Sweet Earth, etc., and fortified products are growing quickly). An example of this is that Nestlé has set a strategic target of growing sales by CHF20–25 billion through its "more nutritious product" line by 2030. The company's management believes there will be increased revenue potential from healthier and sustainable food going forward, which supports higher price points and improved shelf presence in health-focused categories. Organic growth (volume + price) was 2.2% in 2024. Although the total number is relatively low (2.2%), organic growth was primarily driven by volume recovery in certain health-focused categories and gaining market share in developing markets.

Table 2 Nestlé's ESG Initiatives to the Five Links to Value Creation

ESG Value Creation Link	Key ESG Initiatives (2022–2025)	Quantitative Evidence / KPIs	Business Impact and Value Creation
Top-line Growth	Creating Shared Value (CSV) strategy; expansion of health, nutrition, and wellness products; plant-based and fortified food innovation	Target to increase sales of "more nutritious products" by CHF 20–25 billion by 2030 (baseline 2022); organic sales growth of 2.2% in 2024 driven by branded categories (Nestlé, 2024)	Strengthened brand differentiation and customer trust; access to premium and health-conscious consumer segments; long-term revenue growth driven by purpose-led innovation
Cost Reduction	Energy efficiency measures; transition to renewable electricity; water efficiency and waste reduction in manufacturing	91.9% renewable electricity across operations; absolute GHG emissions reduced by 13.5% vs. 2018 baseline; virgin plastic use reduced by 21.3% since 2018 (Nestlé, 2024)	Lower energy and water costs, reduced exposure to commodity price volatility, and operational savings from material efficiency and circular packaging
Regulatory and Legal Risk Mitigation	Net-zero roadmap validated by SBTi; deforestation-free sourcing; strengthened human rights and supply chain due diligence	93.5% deforestation-free sourcing across key commodities; SBTi-approved net-zero targets; enhanced compliance with EU deforestation and climate disclosure regulations (Nestlé, 2024; SBTi, 2023)	Reduced exposure to regulatory penalties, trade restrictions, and reputational risks; strengthened license to operate in highly regulated global markets
Employee Productivity & Engagement	Workforce diversity and inclusion programs; health and safety systems; youth	47.4% women in management positions; over 10.2 million young people supported with economic	Improved employee engagement, leadership diversity, and organizational capability; enhanced talent

	employment and skills development initiatives	opportunities since 2017 (Nestlé, 2024)	attraction and retention across regions
Investment & Asset Optimisation	Capital investment in regenerative agriculture; sustainable sourcing; R&D in nutrition science and climate-resilient supply chains	15.2% of key ingredients sourced from regenerative agriculture by 2023; large-scale investments in renewable energy and low-carbon manufacturing assets (Nestlé, 2024)	Optimized long-term asset value, reduced climate and supply chain risk, improved agricultural resilience, and increased attractiveness to ESG-focused investors

DISCUSSION

The current paper seeks to analyze ESG as a source of value creation for organizations instead of viewing it only from the compliance perspective (i.e., what is required for compliance) or as an image-enhancing activity (i.e., improving the company's reputation). By combining findings from the existing literature on ESG with contemporary case examples from Unilever and Nestle, this study concludes that when ESG initiatives are included within the corporate strategy and governance structure, they will lead to measurable dollar (economic) benefits. This finding is consistent with previous research (Henisz et al., 2019; Porter & Kramer, 2011), which suggests that ESG creates value to firms via multiple, interconnected routes, particularly for those firms operating in industries facing ever-increasing customer expectations, government regulations, and a shortage of natural resources.

The outcome of the discussions showed the connection between ESG integration and business value creation, where case evidence shows that sustainability innovation creates top-line growth with brand equity and differentiation and through the operational resiliency, cost reduction, and additional cost savings produced from energy efficiencies, emissions reductions, and circular packaging. Being proactive and aligned with science-based targets and sourcing deforestation-free products, as well as creating additional governance frameworks, mitigates regulatory and legal risks and therefore can reduce compliance costs and reputation risk. Lastly, social initiatives (specifically around work force well-being, living wages, and inclusiveness) appeared to be significant drivers of employee engagement / productivity, confirming the relationship between human capital and maintaining a competitive advantage.

To summarise, this study presents evidence that those ESG links connected to creating value are functioning together as "a system of mutually reinforcing mechanisms" (i.e., operating as an overall system) and not as standalone mechanisms. As a result, investment in sustainable assets and restorative supply chains delivers optimisation of long-term capital allocation, as well as growing, reducing costs, and reducing risks at the same time. The interplay of these systems helps explain why organisations that are embedding their ESG strategies more deeply tend to display greater agility and resilience in highly cyclical markets. From the perspective of management, this research also demonstrates that the effectiveness of ESG is determined by the execution quality of the ESG strategy, how well it is integrated into company decision-making processes, and how well it is aligned with employee performance incentives. Overall, this research reinforces the finding that, when implemented strategically, ESG serves as a core capability that creates long-term value and resilience within companies.

CONCLUSION

The study examined the impacts that Environment, Social, and Governance (ESG) considerations have on value and provided a better understanding of existing issues. The research looked at two multinational corporations, Unilever and Nestlé, and combined two theoretical approaches and their assumptions regarding ESG to provide an accurate depiction of how ESG can contribute to measurable, financial benefits when included in a corporate plan, governing body, and to operations. The research explores five interconnected pathways that demonstrate the effect of ESG on business performance: increase revenue; reduce costs; reduce regulatory and legal risks; increase employee productivity/engagement; and optimize investments/assets. These findings enhance the assertion that implementing sustainable business practices does not prevent achieving a competitive advantage.

The results of the study have significant implications for theory and practice. The findings support and inform the ESG value-creation framework by demonstrating how its mechanisms work together in real business situations from an academic perspective. From a manager's perspective, the effectiveness of ESG initiatives is based on how well they are integrated into performance measurement, incentive structures and overall decision-making, rather than simply on the stated ambition of the target. Due to increasing regulatory scrutiny and stakeholder expectations, companies that view ESG as a strategic capability rather than simply as an obligation to report will likely have an advantage in achieving long-term resilience and sustainable business growth. Future research should further examine the dynamics of ESG value creation in different industries and quantitatively assess the financial materiality of individual ESG pathways.

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