NAVIGATING THE ESG LANDSCAPE AND ITS IMPACT IN THE BUSINESS AND INVESTMENT SECTOR

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Abstract

The purpose of this paper is to identify the impact and importance of ESG in the business and investment world in the past few years and how can we implement ESG criteria into our businesses to continue to have profitable and investable businesses. The research is focused on the role of ESG decisions within organizations and how they can impact the value of a company. The research hypothesis is that there are various decisions of becoming ESG complaint you can take, but not all of them are profitable decisions. So, instead of taking decisions based on the implementing costs and short-term expenses, an organization should take into consideration long-term profits and a possible increase in the company's valuation. Achieving success involves identifying these factors well in advance before they can adversely impact the well-being of the company. This allows for proactive measures to mitigate any potential detrimental consequences that may arise. This can be accomplished through ongoing monitoring of these variables, creating a dynamic process, and making informed decisions based on a solid understanding of the operational processes and needs of each company. Because of its massive politicization, ESG has become perceived more as a cost center instead of a value center. Business leaders consider that they are being forced to report something without value for their businesses when they should be asked how to turn this in their favor to make business more valuable. This paper also presents the importance of sustainable developments and how they can impact investment decisions. Analyzing the behavior of the biggest investment firms, we can identify those metrics that show if a company's decisions about ESG implementation make it investment material.

Keywords

ESG, investment, business, value chain, sustainable development

JEL Classification

M4, M14, M16, E22, F20, F23

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Introduction

In recent years, the corporate and investment sectors have undergone major changes that go beyond traditional financial metrics and profit margins. More and more attention is being paid to its three attractive criteria: environment, society and governance, collectively known as ESG. This transformative concept represents a paradigm shift in the way companies are valued, investments are made, and the global economy is shaped.

ESG is more than just a set of metrics. It's a guiding philosophy that redefines success in the modern business environment. Environmental factors examine a company's ecological footprint and resource management. The social component addresses human rights, labor practices, diversity, and community participation. Governance principles consider the internal structure, ethics, and transparency of corporate governance. Taken together, these dimensions provide a holistic view of an organization's impact on society, the environment, and internal governance.

ESG is now no longer an afterthought, but a core consideration for companies and investors alike. This provides a powerful compass to guide companies towards sustainable practices and helps investors identify companies that are not only profitable but also responsible. Finding an equilibrium between ESG-sustainable growth and financially sustainable growth is important because it has serious implications for the consistency of the overall growth of a company, and the relationship between its shareholders and other stakeholders (Bellandi, 2022). The ESG landscape has profound implications, shaping corporate strategy, influencing investment decisions, and ultimately redefining the concept of success in a rapidly evolving global market.

This study explores the complex area of ESG, examining its dimensions, materiality, and transformative impact on companies and the investment sector.

1. Review of the scientific literature

1.1. Navigating the ESG landscape

After many years of high demand for enhanced transparency about ESG matters from both investors and stakeholders, standard setters in various jurisdictions and regulators have issued different proposals to transform ESG reporting in 2022. This pivotal year witnessed the introduction of ESG disclosure proposals from significant players, including the European Union (EU) through the Corporate Sustainability Reporting Directive (CSRD), the global arena through the International Sustainability Standards Board (ISSB), and the United States (US) via the Securities and Exchange Commission (SEC). These three major disclosure frameworks outline comprehensive sustainability reporting obligations, albeit with distinctions in their coverage and specific requirements (PwC Report, 2023). Considering the expansive geographical scope of these frameworks and their capacity to encompass a wide range of participants throughout the value chain, it is anticipated that a substantial number of companies will experience some level of impact. Forward-thinking organizations are actively evaluating the relevance of these frameworks, ensuring they are well-prepared to meet potentially

tight reporting deadlines when required. The global business landscape's heightened focus on ESG factors has resulted in greater regulatory scrutiny and the establishment of more robust reporting frameworks. Governments and regulatory authorities worldwide acknowledge the importance of sustainability and heightened transparency in ESG reporting. Consequently, they are enacting stricter regulations and guidelines to enforce adherence to these principles by businesses. The Non-Financial Reporting Directive (NFRD) of the European Union provides a notable illustration of this trend. The NFRD is designed to enhance the transparency and comparability of ESG reporting within EU-based companies. Through its requirement for the disclosure of non-financial information, this directive facilitates a more robust assessment of an organization's environmental, social, and governance performance by stakeholders.

An additional noteworthy development within the ESG reporting landscape is the expanding global endorsement of the Task Force on Climate-related Financial Disclosures (TCFD). Established under the auspices of the Financial Stability Board, the TCFD furnishes a voluntary framework for entities to provide information pertaining to their climate-related risks and opportunities. With an extensive supporter base exceeding 3,000 organizations worldwide, the TCFD has metamorphosed into a pivotal point of reference for enterprises seeking to fortify their ESG reporting endeavors and align with the expectations of their stakeholders.

To adeptly navigate the regulatory pressures and continuously shifting reporting standards, entities must devise robust ESG frameworks that encompass comprehensive data acquisition, perpetual monitoring, and transparent disclosure processes. This proactive approach equips organizations to ensure the precision and uniformity of their reporting, satisfy the anticipations of stakeholders, and mitigate potential risks associated with non-compliance.

According to a report made by S&P Global (S&P Global, 2023) it is believed that sustainability initiatives could be tested by economic uncertainty, persistent inflation, geopolitical turmoil and worsening physical impacts of climate change. All these could lead to tensions between balancing the handling of immediate risks with the pursuit of substantial advancements toward enduring sustainability objectives.

1.2. ESG Impact on the value chain

A salient characteristic of the burgeoning importance of ESG lies in the extensive array of contexts in which it is applicable. It is no longer adequate for an enterprise to exclusively contemplate and address ESG considerations within the confines of its internally owned and managed operations. Instead, businesses are increasingly expected to scrutinize the performance, as well as inadequacies, of interconnected endeavors, notably those situated within their supply chain ecosystem. It is noteworthy that, for global brands or corporations, the majority of their ESG impact frequently emanates from their supply chain activities.

Supply chains have always been a fundamental and important aspect of business, but achieving sustainable, responsible, and ethical supply chains will be difficult. An essential initial stride in recognizing and mitigating emerging supply chain risks

involves cultivating an understanding and recognition of the repercussions stemming from the swiftly evolving legal and regulatory structures in pertinent regions. As reporting requirements, customs procedures, tariffs, and other trade regulations increasingly encourage ESG considerations, the capacity to foresee and respond to these advancements holds significant importance. Irrespective of the industry or geographical areas in which a specific enterprise is active, procurement and sourcing strategies should inherently involve and place a strong emphasis on ESG principles. This encompasses the creation of resilient, efficient, and quantifiable corporate policies and operational methodologies pertaining to governance. Additionally, it involves fostering close collaboration with suppliers at various levels within the supply chain to establish shared objectives and cohesive aims (Whitaker & Peterson, 2021)

By increased ESG regulatory requirements, Governments and regulatory authorities have succeeded to compel businesses to enhance transparency, manage risks, and align with sustainability goals (Fortt et al., 2022).

In June 2021, the European Commission introduced a proposal for a regulation aimed at establishing the European Union Carbon Border Adjustment Mechanism (CBAM). The primary objective of CBAM is to prevent carbon leakage by regulating the greenhouse gas emissions associated with "covered products". Initially, these covered products include cement, specific iron, steel, and aluminum products imported into the EU. This regulatory measure is intended to counteract the potential negation of the EU's efforts to reduce greenhouse gas emissions, particularly through revisions to the EU Emissions Trading System (EU ETS). Although the European Council reached an agreement on CBAM terms in March 2022, progress in inter-institutional negotiations has been hindered by the European Parliament's rejection of proposed EU ETS revisions in May 2022. These revisions are closely linked to the CBAM framework (Council of the EU, 2022).

Regarding human rights and environmental due diligence, in February 2022, the European Commission introduced a proposed directive that would necessitate qualified companies, both from the EU and beyond, engaged in the EU market, to conduct extensive human rights due diligence across their complete value chains and proactively manage such risks.

In April 2021, the European Commission (EU Commission, 2021) unveiled a proposed directive known as the Corporate Sustainability Reporting Directive (CSRD). This directive would mandate that large companies and all firms listed on regulated markets undertake audits and disclose specific social and environmental information. Additionally, it would necessitate the use of a digital categorization system to tag their reported sustainability data. The precise details of the disclosure requirements that companies must adhere to will be outlined in a set of European Sustainability Reporting Standards (ESRS), currently in the consultation phase. These standards encompass a range of ESG (Environmental, Social and Governance) topics, including considerations related to value chains. If enacted, the CSRD would revise the provisions of the Non-Financial Reporting Directive (NFRD), originally adopted in 2014. The NFRD mandates that large public-interest companies with over 500 employees disclose

specific social and environmental information. Approximately 11,700 companies are presently subject to the reporting obligations of the NFRD, but the CSRD would expand the scope to include a greater number of companies. (Fortt, Hatcher, Walker, Watkins, 2022).

A sustainable supply chain is one with the capacity to foresee and respond to unanticipated circumstances. For businesses that have faced setbacks due to supply chain hiccups during the pandemic, it becomes especially crucial to pinpoint the optimal equilibrium between efficiency and resilience. A growing number of enterprises are actively experimenting with and investigating the application of distributed ledger technologies, particularly blockchain-related tools, within the realm of supply chain management. Beyond the potential advantages of cost reduction and enhanced efficiency, this technology presents the prospect of expeditious decision-making, heightened tracking and tracing capabilities (benefiting customers and partners alike), diminished inter-organizational friction, swift dissemination of information across supplier tiers, and bolstered enforcement of intellectual property rights, authenticity verification, and compliance benchmarking. It is foreseeable that emerging technologies will assume an expanding role in shaping modern, resilient, and sustainable supply chains.

In summary, boards must familiarize themselves with supply chain management, from top-tier to lower-tier participants, integrating supply chain considerations into operations, strategy, and risk management for resilience and sustainability.

1.3. ESG investment trends

ESG investment trends in 2023 are poised to shape the financial landscape, with a heightened focus on sustainability, societal impact, and governance principles. The ESG investment trend continues to sizzle as more than $17 trillion of the total assets under professional management are invested in assets that follow ESG principles. ESG investing is more popular among women and millennials investors because it matches more with their personal values.

There are companies that find it important to include sustainability in their business model as an opportunity, while other companies are interested in using sustainability as an input in their production methods in order to help them become more profitable. To become a company of interest to investors it is important to understand what criteria matter most to each investment company and what their investment focus is. There are investors interested in reducing CO2 emissions while others are focused on corporate governance. Investors want to see the impact of a project, a measurable impact that can be compared in the market to help them choose if they should invest or not.

Sustainable investing is witnessing a remarkable surge in both its application and research endeavors (Gillan et al., 2021; Pastor et al., 2021). Nevertheless, the existing literature on sustainable investing faces several noteworthy limitations. To begin with, numerous data providers offer diverse ESG metrics, resulting in remarkably low correlation among these providers (Berg et al., 2020). Consequently, there exists considerable disagreement regarding the measurement of ESG, including the varying weightings assigned to different components when deriving a composite score.

Secondly, given that ESG is a relatively recent phenomenon, and the market may be in the process of transitioning to a new equilibrium, it remains uncertain whether current studies capture a newly established state or merely a transient phase during this dynamic adjustment period. Thirdly, the causality direction is ambiguous; it is unclear whether the fundamental mechanism operates under the 'doing well by doing good' principle or the 'doing good by doing well' principle. Lastly, while ESG has been extensively examined across various asset classes such as stocks, bonds, bank loans, and real estate, it has not yet been thoroughly explored within the entrepreneurial finance literature, with a few notable exceptions (e.g., Cumming et al., 2016; Cumming et al., 2017; Vismara, 2019).

In 2023, we must keep a vigilant eye on pivotal trends, including the global dynamics of inflation and economic uncertainty, the rapid propulsion of digital transformation and cloud adoption, the innovation-driven pursuit of novel revenue streams, the imperatives of supply chain resilience and security, and the unfolding metamorphosis of ESG into a central pillar of business strategy.

According to a report published by (Deloitte, 2022), the persistent global investor demand for ESG products continues to present opportunities for organic growth in assets under management (AUM). Recent surveys underscore the role of client demand as a driving force behind investment managers' integration of sustainability investment metrics into their decision-making processes. The report delves into the comprehensive landscape of professionally managed ESG assets. If the current growth trajectory is maintained, ESG-mandated assets (defined as professionally managed assets considering ESG factors in investment selection or engaging in shareholder resolutions on ESG matters at publicly traded companies) are projected to encompass half of all professionally managed assets worldwide by 2024 (Taylor, Collins, 2022).

Figure 1 Proportion of ESG mandated data through 2020 from Global Sustainable Investment Alliance; DCFS Analysis through 2025

ESG-mandated assets are projected to make up half of all professionally managed assets globally by 2024

Global assets under professional management ($T)

Note: All amounts are in US dollars.

Source: Deloitte insight - https://www2.deloitte.com/uk/en/insights/industry/financial-services/esg-investing-and-sustainability.html

Leading investment management companies are incorporating an ESG lens into their investment procedures, seamlessly integrating ESG research into their investment decision-making processes. ESG integration is gradually evolving from a unique selling point for investors to an essential standard element in the investment decision-making equation. Moreover, regulatory bodies worldwide may follow the European Union's lead by mandating the categorization of all funds to facilitate investors' assessment of the extent of ESG integration.

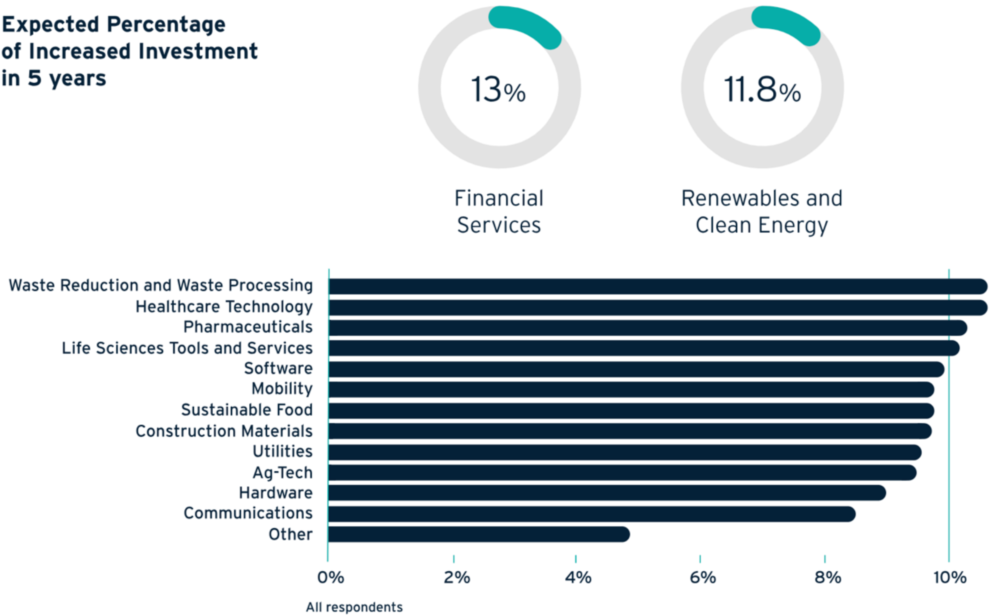
As an increasing number of funds receive sustainability labels to varying degrees, differentiating investment managers based solely on their product offerings may become more challenging. Transitioning from offering specialized ESG products to fostering a sustainability-oriented culture within the organization may align with regulatory goals, establish credibility with investors, satisfy employees, and ultimately enable the firm to capture a larger share of ESG-mandated assets under management (AUM).

In general, individuals seek employment with organizations whose values harmonize with their own. The disclosure of ESG objectives, accompanied by clear and firmwide objectives, has the potential to foster collaboration across different functional areas by harmonizing sustainability objectives throughout the organization. In cases where a coherent message from leadership is absent, certain companies have encountered tensions between sales and compliance teams due to uncertainties surrounding regulatory impacts like SFDR. One potential solution lies in firm leadership demonstrating a commitment from the top-down by linking executive compensation to the attainment of specific ESG targets. Leading organizations are effectively conveying their vision and reinforcing it with incentives.

According to a Bloomberg study based on a survey of nearly 800 business decision makers, ESG assets are projected to reach $50 trillion by 2025, constituting over one-third of the anticipated total global assets under management, which is estimated at $140.5 trillion. There are a few industries leading the world in ESG. As per the study's findings, 32% of respondents perceive renewables and clean energy as currently offering the most substantial return on investment (ROI), and an equal proportion anticipate this trend continuing into 2030, marking the highest favorability among all investment sectors. However, there is a possibility that investors are overly fixated on the most apparent ESG investment opportunities, potentially overlooking a chance to adopt a more comprehensive approach to sustainable investing. Within this landscape, ESG fund managers, at 27%, identify Financial Services as the sector with the highest current ROI potential, a viewpoint shared by only 10% of Chief Sustainability Officers, 7% of government officials, and 13% of non-ESG fund managers.

Notably, leaders in the venture capital sector exhibit a distinct confidence in the ROI potential of Life Sciences Tools and Services (16%) and Mobility (10%) (Bloomberg, 2022).

Figure 2: Expected percentage of investment in various industries



Source: Bloomberg - https://sponsored.bloomberg.com/article/mubadala/the-future-of-esg-Investing

Among the countries most focused on ESG investments there are China, UK and the UAE, followed by France and US, meanwhile 98% of the VCs rate sustainable investment as a high priority for them followed by ESG fund managers, CSOs, government officials and non-ESG fund managers, which are not far behind with 71%. This suggests that ESG holds significance for every individual involved in business decision-making, irrespective of whether sustainability is a central aspect of their role.

1.4. ESG as Perceived by Business Leaders

Paying attention to ESG concerns does not necessarily compromise returns, it can bring a real value proposition for your business. There are 5 links we can mention that can create value such as top line growth, cost reductions, reduced regulatory and legal interventions, employee productivity uplift, investment, and asset optimization. The five links provide a systematic framework for approaching ESG considerations, but they do not guarantee that each link will be relevant or equally applicable in every situation. Certain links may have a higher likelihood of significance in specific industries or sectors, while others may be more prevalent in particular geographic regions. Nonetheless, it is essential to consider all five links irrespective of a company's business model or location. The potential for value creation is significant, and no aspect of these links should be overlooked or left unexplored.

Talking about top line growth, a robust ESG proposition empowers companies to access new markets and expand within their existing ones. When regulatory bodies have confidence in corporate entities, they are more inclined to grant them access, approvals, and licenses, thus opening doors to new growth opportunities. For example, the best value proposition in this case could be drawing in B2B and B2C clientele by offering more sustainable products, while also enhancing access to valuable resources through stronger community and government relationships.

ESG practices can also lead to substantial cost reductions. Among other benefits, effective implementation of ESG measures can mitigate the impact of rising operating expenses, such as increased raw material costs and the true costs associated with water or carbon. McKinsey's research has revealed that these cost factors can affect operating profits by as much as 60 percent. In the same study, our colleagues introduced a metric that analyzed the relative resource efficiency of companies across various sectors, considering factors like energy, water, and waste usage in relation to revenue. This analysis highlighted a significant correlation between resource efficiency and financial performance. Furthermore, the study identified several companies from diverse sectors that excelled in this regard specifically, those that had taken their sustainability strategies to an advanced level (McKinsey, 2019).

A more robust external value proposition can grant companies greater strategic flexibility, thereby alleviating regulatory pressures. In numerous instances spanning various industries and global regions, it has been observed that a strong ESG performance reduces a company's susceptibility to adverse government actions and can even foster government support. The potential impact on value may exceed expectations, with roughly one-third of corporate profits facing potential risk due to government intervention. It's important to note that the extent of regulatory impact varies across industries. In pharmaceuticals and healthcare, profits at risk account for approximately 25 to 30 percent, while in banking, where regulations regarding capital requirements, "too big to fail" policies, and consumer protection hold significant importance, the value at risk typically ranges from 50 to 60 percent. Similarly, in sectors like automotive, aerospace and defense, and technology, where government subsidies and various forms of intervention are prevalent, the value at risk can also extend to around 60 percent.

A robust ESG proposition can play a pivotal role in helping companies attract and retain high-caliber employees, fostering employee motivation through a sense of purpose, and ultimately boosting overall productivity (Edmans, 2011). Research indicates a positive correlation between employee satisfaction and shareholder returns. For instance, a study by Alex Edmans at the London Business School found that companies listed in Fortune's "100 Best Companies to Work For" achieved annual stock returns that were 2.3 percent to 3.8 percent higher than their peers over a span exceeding 25 years (Edmans, 2012). Furthermore, it has long been recognized that employees who not only feel satisfied but also connected to their work tend to perform better. The stronger an employee's perception of the impact their work has on beneficiaries, the higher their motivation to engage in "prosocial" behavior.

A strong ESG proposition can have a positive impact on investment returns by directing capital towards more promising and sustainable opportunities, such as renewables, waste reduction initiatives, and pollution-control technologies like scrubbers. Additionally, it enables companies to steer clear of stranded investments that might not yield returns due to long-term environmental challenges, as exemplified by significant write-downs in the value of oil tankers. It's essential to recognize that, in the realm of ESG, maintaining the status quo is typically a declining trajectory rather than a straight path. Continuing to rely on energy-intensive plants and equipment, for instance, can lead to ongoing cash depletion. While investments required for operational upgrades may be substantial, opting for inaction can often prove to be the costliest choice. The landscape is evolving, with regulatory responses to emissions likely affecting energy costs, particularly impacting balance sheets in carbon-intensive industries. Furthermore, bans or restrictions on items such as single-use plastics or diesel-fueled vehicles in urban centers are introducing new constraints across various industries, forcing many businesses to play catch-up. One proactive strategy to stay ahead of future shifts is to explore asset repurposing opportunities today. For instance, converting underutilized parking garages into high-demand facilities like residences or day-care centers, as observed in resurging cities, can be a forward-thinking approach to adapting to changing trends.

2. Research methodology

The principal objective of this article is to cultivate a comprehensive understanding of the extant body of literature pertaining to the selected subject, concurrently addressing all the research inquiries delineated in the 'Introduction' section. To achieve this aim, a literature review methodology was systematically undertaken, contextualizing the research questions. Concurrently, data was methodically gathered and analyzed through web search engines, including Google, Google Scholar, and ScienceDirect. To facilitate this process, specific keywords such as 'ESG,' 'CSRD and ISSD,' 'Sustainable investment,' 'Sustainable development,' and 'Sustainable businesses' were employed for the purpose of inquiry. A predominant portion of the referenced sources utilized in this research comprises scholarly articles obtained from ScienceDirect, and reports authored by renowned entities such as PwC, KPMG, McKinsey, Bloomberg, among others. To uphold the paper's credibility, a predominant reliance was placed on authoritative sources, particularly official reports and studies disseminated by esteemed institutions. A total of over 20 sources were meticulously employed in the composition of this paper. The citations incorporated herein encompass a significant proportion of contemporary scientific articles, primarily those published between 2020 and 2023. Additionally, the source pool encompasses other reputable outlets, including official reports and studies furnished by consulting firms and various institutions. The primary criteria guiding the selection of these sources revolve around their relevance to the subject under consideration and their recency. Additional sources encompass articles, documents, or reports issued by distinguished global consulting firms such as McKinsey & Company, PwC, and Deloitte. The central criteria guiding the selection and curation of data were their pertinence to the research topic and their contemporary nature. All articles that align with these established criteria were identified and chosen for inclusion, with all

these selected research works meticulously documented in the reference list. Furthermore, in the pursuit of maintaining the paper's credibility, conscientious efforts were undertaken to minimize researcher bias. This objective was accomplished by subjecting information from multiple data sources to rigorous verification and comprehensive analysis.

3. Results and discussions

3.1 The relation between ESG investment and sustainable business development

In today's ever-evolving business landscape, companies must remain competitive and, to achieve this, they must rely on reliable information that significantly influences their decision-making process. The relationship between ESG investment and sustainable business development is a dynamic and influential one that has gained significant attention in recent years. ESG investment refers to the practice of considering Environmental, Social, and Governance factors when making investment decisions. These factors encompass a wide range of criteria related to a company's impact on the environment, its social responsibilities, and its governance practices. On the other hand, sustainable business development encompasses the pursuit of economic growth and profitability while minimizing negative environmental and social impacts. It involves adopting practices that ensure long-term viability and contribute positively to society and the planet. ESG investment and sustainable business development share a common goal, the one of creating value that extends beyond financial returns (S&P Global, 2023). ESG investors are actively seeking opportunities in companies that not only demonstrate strong financial performance but also exhibit responsible and sustainable practices. These investors play a crucial role in encouraging businesses to adopt more sustainable approaches. By directing their investments toward companies with robust ESG credentials, they create incentives for organizations to prioritize sustainability, ultimately resulting in favorable environmental and social outcomes. The integration of sustainable business practices contributes significantly to long-term value generation. Companies that incorporate ESG principles into their operations are better equipped to navigate evolving market dynamics, comply with regulatory requirements, and meet stakeholder expectations (OECD Report, 2020). ESG investment also serves as a catalyst for innovation in sustainable technologies and practices, offering businesses a competitive advantage in today's ever-evolving market landscape. Global regulatory bodies are increasingly emphasizing the importance of ESG disclosure and compliance. Companies that proactively embrace ESG principles are more likely to align with regulatory mandates and avoid potential penalties. However, despite the promising relationship between ESG investment and sustainable business development, there are challenges to address, including concerns related to data quality, measurement methodologies, and the issue of greenwashing (Jonsdottir, Sigurjonsson, Johannsdottir, Wendt, 2022) In summary, ESG investment and sustainable business development are interconnected concepts. ESG investment encourages and fosters sustainable practices within businesses, driving positive transformations and value creation. Concurrently, companies that wholeheartedly embrace sustainable development principles become

more appealing to ESG investors, enhancing their access to capital, and strengthening their competitive positioning in the ever-evolving global economy.

3.2 Building a sustainable value chain – a key factor for businesses.

In today's era of globalization, two significant changes have reshaped approaches to sustainable production and consumption. First, these processes have transcended national borders, driven by concepts like supply chain management, global commodity chains, and value networks. Second, traditional state authorities struggle to regulate global sustainability effectively. Consequently, new hybrid and private sustainability governance systems have emerged, involving various stakeholders such as primary producers, processors, traders, retailers and even consumers (Bush, Oosterveer, Bailey, Mol, 2015). For building a sustainable and resilient supply chain there are a few key factors needed to be taken into consideration, such as: focus on transparency, consider climate change risks and opportunities, scrutinize compliance, consider regulatory risks, balance efficiency and resilience, consider emerging technologies and anticipate emerging areas of focus. The necessity for prioritizing transparency arises from the intricate nature of contemporary supply chains, which can result in various ESG risks becoming integrated into a company's operations unbeknownst to its management. The reduction of carbon footprints, especially in cases where supply chains contribute substantially to these footprints, has emerged as a pivotal concern for numerous companies. In the future, it will grow in significance for companies to actively engage and cooperate with their suppliers in order to pinpoint opportunities for harnessing renewable energy, minimizing waste, and optimizing manufacturing and logistics processes. Adhering to regulations continues to present a significant hurdle for businesses that rely on extensively outsourced global supply chains, which have previously encountered difficulties regarding human rights, equitable labor practices, and anti-corruption regulations. The digital transformation of the global economy has made an increasing number of companies susceptible to compliance challenges related to data, as fresh laws and regulations governing data privacy and cybersecurity are put into effect. Furthermore, the persistent shift toward stakeholder capitalism and the revived emphasis on corporate mission and ethos signify that investors and consumers will exhibit reduced tolerance for transgressions by third-party suppliers. Efficiency, as exemplified by the extensive offshoring of personal protective equipment production, can morph into an operational risk. It can also render supply chains more vulnerable (Silk et al., 2020) The heightened emphasis on corporate sustainability largely emerged from the UN's – United Nations 2030 Agenda for Sustainable Development. This agenda underscores the imperative for businesses to mitigate the adverse environmental and social consequences stemming from their operational activities and, notably, to collaborate with trade and business partners throughout the value chain in addressing these issues (UN, 2019). The overarching objective is to formulate strategies for environmental innovation and attain competitive advantages in global markets while minimizing social and environmental impacts. This agenda triggered a notable surge in governance and sustainability endeavors, encompassing the establishment of standards and certification processes in both advanced and emerging economies (Dimitripoulus et al.,2023)

Conclusions

Companies and investors can no longer ignore ESG factors. ESG considerations have become an integral part of risk management, reputation, and long-term financial performance. As the regulatory landscape continues to evolve, governments and regulators around the world are placing increasing emphasis on ESG reporting and compliance. It is important for both companies and investors to stay up to date with evolving regulations. ESG-conscious investors are driving change by pouring capital into sustainable companies. Companies that prioritize ESG principles can attract more investment and increase their competitiveness. Integrating ESG practices into your operations not only reduces risk but also promotes resilience. Companies that prepare for environmental and social challenges are better positioned for long-term success. ESG considerations drive innovation in sustainable technologies and practices, providing a competitive advantage in the marketplace. Improving efficiency also leads to cost reductions. ESG considerations extend beyond corporate boundaries and into the supply chain. Managing ESG risks and opportunities across the value chain is critical. Despite the progress, challenges remain, such as data quality and greenwashing. Addressing these challenges is critical to meaningful ESG progress. Effectively addressing global sustainability challenges requires a collaborative effort from governments, businesses and investors. ESG integration is not a short-term trend, but a long-term strategy to create value, reduce risk, and have a positive impact on society. His transparent ESG reporting is essential to building trust with stakeholders. Companies should strive for accurate and consistent reporting. In summary, navigating the ESG environment requires a proactive and strategic approach. Adopting ESG principles not only aligns with global sustainability goals, but also increases a company's resilience, competitiveness, and investment attractiveness in an increasingly ESG-conscious world.

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