



A Conceptual Study of Environmental, Social and Governance (ESG) Practices and Their Role in Sustainable Social Development in Modern Industries

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DOI : <https://doi.org/10.5281/zenodo.22077024>

ARTICLE DETAILS

Research Paper

Received: 21-06-2026

Accepted: 15-07-2026

Published: 20-08-2026

Keywords:

ESG, sustainability, social responsibility, sustainable development, corporate accountability, ethical governance, community welfare, public policy, environmental justice, labor welfare.

ABSTRACT

ESG (Environmental, Social and Governance) encompasses a business's influence on the environment and society, alongside the strength and transparency of its governance including leadership, executive compensation, audits, internal controls, and shareholder rights. The study aims to examine ESG practices and their role in promoting sustainable development, social responsibility, ethical governance, community welfare, and long-term organizational sustainability. The paper focuses on the key components of ESG, its significance for businesses, investors, employees, communities, and society, and examines the advantages and challenges associated with ESG implementation. The study is based on secondary data collected from scholarly articles, policy reports, sustainability frameworks, websites, newspapers, and magazines. The findings highlight that ESG is not only a business and investment framework but also an important tool for promoting corporate accountability, social wellbeing, environmental sustainability, and responsible governance. The study is useful for businesses, investors, researchers, policymakers, and other stakeholders.

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Introduction

In the fast-evolving business landscape of today, companies are anticipated to concentrate on not just profitability but also on sustainability, ethical conduct, and social accountability. Environmental, Social, and Governance (ESG) has become a significant framework for assessing how companies handle environmental effects, employee and community well-being, and governance practices. ESG has become increasingly crucial for investors, businesses, governments, and stakeholders as it encourages ethical business practices and fosters sustainable growth over the long term.

The influence a company has on its environment, whether on a global level or within its local area, has become very apparent. Alongside this, individuals are growing more concerned about ESG topics like climate change, human rights, and executive pay. As a result, integrating sustainability into business practices is now a key priority for both company leaders and investors in today's environmentally aware business world.

In the present day, ESG has emerged as a comprehensive and all-encompassing framework. This framework includes a wide spectrum of issues related to the environment, society, and governance. It has gained widespread recognition and acceptance as a critical component of responsible investment strategies. In recent years, the world has faced several social and environmental challenges such as climate change, social inequality, labor welfare issues, environmental degradation, and corporate governance failures. These challenges have increased the need for businesses to operate responsibly and contribute positively to society. ESG provides a framework that helps organizations address these issues by promoting environmental sustainability, social responsibility, ethical governance, and community development.

Furthermore, it is now considered an essential component of initiatives designed to improve corporate sustainability. Beyond improving business performance, ESG contributes to building public trust, protecting stakeholder interests, promoting social justice, and supporting sustainable development goals. Therefore, ESG has become an important tool for businesses, governments, investors, and policymakers in addressing modern social realities and achieving long-term sustainable growth. This acknowledgment reflects the development and expansion of the ESG concept, which has moved from its original emphasis on environmental and health safety concerns to a more inclusive and broad approach.

History of ESG

Environmental, Social, and Governance (ESG) criteria are rooted in the longstanding tradition of socially responsible investing, which originated in the 1970s. Over the years, investors have recognized that risks



such as human rights violations and environmental degradation can significantly impact portfolio performance. In 1997, the Global Reporting Initiative (GRI) introduced a framework for sustainability reporting, thereby enhancing the consistency and comparability of data. The term "ESG" was first introduced in the 2004 "Who Cares Wins" report by the UN Global Compact, which advocated for the integration of these factors into investment analysis. Subsequently, many groups have implemented their own sets of guidelines for reporting, commonly referred to as the "alphabet soup" of ESG. This diversity has created challenges for businesses in selecting the appropriate method and for investors in evaluating information. The development of ESG was also influenced by the growing demand for corporate accountability, ethical business practices, and sustainable development. Governments, international organizations, and civil society increasingly emphasized the need for businesses to address environmental protection, social welfare, human rights, and transparent governance. These developments strengthened the role of ESG as an important framework for responsible business conduct and sustainable societal progress.

In response to this issue, the creation of the International Sustainability Standards Board (ISSB) took place in 2021. By 2023, the ISSB introduced the IFRS S1 and IFRS S2 Sustainability Disclosure Standards, merging current frameworks to establish a worldwide foundation for sustainability reporting. More than thirty nations are projected to embrace these standards. The adoption of global initiatives such as the United Nations Sustainable Development Goals (SDGs) and the Global Reporting Initiative (GRI) further strengthened the importance of ESG. These initiatives encouraged organizations to improve transparency, accountability, and sustainability reporting while contributing to broader social, environmental, and economic development goals. With an increasing number of governments aiming for climate targets, investments will increasingly be directed towards environmentally friendly assets. Transparency in the allocation of capital and the activities it funds is facilitated through ESG reporting.

II. Objectives of the study

- ❖ To examine the components or pillars of Environmental, Social and Governance (ESG).
- ❖ To analyze the significance of ESG in promoting sustainable business practices and sustainable development.
- ❖ To evaluate the role of ESG in enhancing social wellbeing, community development, and ethical governance.
- ❖ To determine the advantages of ESG for businesses, investors, employees, and society.



- ❖ To explore the challenges associated with ESG implementation, reporting, and public accountability.

III. Research Methodology

This study is conceptual in nature and is based on secondary data. The data were collected from scholarly journal articles, books, research reports, policy documents, sustainability frameworks, newspapers, magazines, and relevant websites related to Environmental, Social, and Governance (ESG). The sources were selected based on their relevance to ESG components, sustainable development, corporate governance, social responsibility, and stakeholder welfare. The study reviews and analyses existing literature to understand the significance, advantages, and challenges of ESG in modern industries.

IV. Components/Pillars of Environmental, Social and Governance (ESG):

Environmental, Social, and Governance is what ESG stands for. These three pillars address various facets of a business's operations:

Environmental (E): The environmental pillar assesses a company's impact on the environment. It examines waste management, resource consumption, and the effects of climate change. This relates to how an organization affects the environment.

Businesses are being investigated more and more for their resource usage, waste management strategies, and carbon footprint.

Stakeholders are calling on companies to be more accountable and transparent about their environmental impact as climate change becomes a major worldwide concern. Businesses that include ESG principles frequently employ environmentally friendly practices, such as sustainable resource use, energy efficiency, and the use of renewable energy.

By using precise environmental measures to assess businesses, the ESG framework helps improve ESG investing decisions.

Social (S): This refers to how an organization affects people, including employees, clients, and the community. The social pillar addresses how businesses handle employees. It covers labor practices, human rights, community involvement, diversity and inclusion, and health and safety. The social pillar of ESG considers a company's overall influence on society, in addition to its financial performance. It addresses important issues like labor practices and human rights, diversity and inclusion, health and safety, community participation, customer happiness and product safety, and data privacy and security.



These factors emphasize a company's responsible and ethical attitude towards all stakeholders, including employees, customers, suppliers, communities, and shareholders. The social pillar displays a company's commitment to making a good social impact. The social pillar also emphasizes labor rights, fair wages, employee welfare, gender equality, diversity and inclusion, workplace health and safety, and protection of human rights. Organizations are increasingly expected to create inclusive work environments, provide equal opportunities, prevent discrimination, and support employee wellbeing. In addition, community participation and social justice initiatives help strengthen relationships between businesses and society, contributing to sustainable social development and stakeholder trust. It is becoming increasingly important to investors and stakeholders who value sustainability and corporate social responsibility.

Governance (G) : A company's internal operations are measured by its governance. This comprises policy development and the allocation of responsibility inside a corporation, which typically refers to directors, specific high-ranking management, shareholders, and eventually, stakeholders. A company's internal operations are measured by its governance. It emphasizes accountability, ethics, and leadership. The core issues of governance are:

company's mission, People on the board of directors, Any compensation for high-level executives, Oversight of decision makers.

When it comes to ESG, investors frequently overlook governance. However, recognizing the G in ESG and its accompanying risks and possibilities in the context of a company's decision-making process is crucial. Especially given that bad governance processes and judgements have been at the root of several significant company scandals. These scandals inflict enormous financial damage, which ultimately affects a company's worth.

Understanding governance is critical for investors because it provides valuable information about how a company is handled and interacts with stakeholders. Governance, in other words, extends beyond financial success to influence the company's adherence to ethical principles, risk management, and long-term viability.

V. Importance of ESG in Modern Business and Investors:

ESG attempts to have a societal influence on businesses by encouraging them to self-actualize long-term sustainable development goals and how this affects company financial performance. ESG is vital because of the following:



Risk Control and Low-Risk Investing: When implemented correctly, ESG considerations can be the best "low-risk, high-return" investment choice for companies. These steps assist companies in identifying and reducing a range of risks, including operational disruptions, reputational harm, and regulatory compliance.

Social Trust and Corporate Accountability: ESG helps organizations build trust among employees, customers, communities, governments, and other stakeholders. By adopting transparent and ethical practices, businesses can strengthen their accountability and social legitimacy.

Brand Value and Reputation: A business pathway with fewer obstacles improves a company's standing, fosters stakeholder trust, and increases brand loyalty.

Inclusive and Sustainable Development: ESG encourages businesses to contribute to economic growth while ensuring environmental protection and social wellbeing. It promotes inclusive development by addressing issues such as equality, diversity, labor welfare, and community development.

Enhanced Sustainability: It's easier to go to the top than to stay there. In order to create a workplace culture that is resilient, inclusive, human-centered, and competitive in a market that is changing quickly, business operations must be sustainable.

Environmental and Social Justice: ESG supports responsible resource utilization, environmental protection, and fair treatment of stakeholders. It helps organizations address environmental and social challenges while contributing to long-term societal welfare.

Choice of Investors: Investors' preference for businesses with robust ESG performance metrics is a practical choice. These businesses are thought to be more responsible, less hazardous, and capable of producing higher financial returns.

Institutional Responsibility and Good Governance: ESG promotes ethical decision-making, transparency, compliance, and effective governance practices. Strong governance systems help organizations maintain stakeholder confidence and ensure sustainable organizational growth.

VI. Advantages of ESG for Business:

Implementing ESG Practices to Improve Brand Reputation: A company's brand reputation is greatly improved by using ESG sustainability practices. Businesses that show a dedication to environmental and social responsibility are generally seen more favorably by customers in today's socially conscious market.



Increased client loyalty, a better brand image, and eventually a competitive advantage in the market can result from this favorable opinion.

Attracting in Eco-Smart Customers: Businesses now need to use ESG strategies in order to draw in eco-aware customers. A rising number of consumers are basing their purchases on a company's social and environmental impact. Businesses can reach this ethical customer base by adopting and promoting sustainable practices.

Enhancing Investor Relations with ESG Dedication: Investor relations can be greatly enhanced by a strong commitment to ESG business strategy. Since sustainable practices are frequently associated with long-term profitability and financial stability, investors are increasingly including ESG considerations into their investing criteria. Businesses with a strong ESG record can draw in more investors, especially those who are interested in socially conscious investing.

The Importance of ESG for Long-Term Business Success: Businesses are better equipped to handle the changing regulatory environment, foresee and reduce risks, and seize new possibilities when they incorporate ESG concepts into their operations. This proactive approach to sustainability can result in higher resilience, better operational efficiencies, and cost savings—all of which are essential for long-term success in a corporate climate that is becoming more complicated and demanding.

Benefits for Employees: ESG practices contribute to employee wellbeing by promoting workplace safety, fair labor practices, diversity, inclusion, and equal opportunities. This helps improve employee satisfaction, motivation, and retention.

Benefits for Communities: Organizations that adopt ESG principles often participate in community development initiatives, support local welfare programs, and contribute to social development. These activities strengthen relationships between businesses and society.

Benefits for Consumers: ESG encourages responsible business conduct, product quality, customer protection, and data privacy. As a result, consumers develop greater trust and confidence in organizations that follow ESG principles.

Benefits for Society: ESG contributes to environmental protection, social welfare, ethical governance, and sustainable development. It helps create long-term value not only for businesses and investors but also for society as a whole.

VII. Disadvantages of ESG for Business:



Greenwashing: Consumers are concerned that some businesses claim to be ESG responsible while doing nothing to improve the environment. They are essentially public relations ploys to attract good attention through "greenwashing".

Backlash: It negatively affect their relationship with their followers and could even lead to a backlash against these organizations, even from followers who have given them great reviews.

Expensive: It takes money, effort, and resources to implement and uphold ESG principles and practices. Businesses have limited resources to devote to ESG practices, and this could also have an effect on profit margin.

Financial Performance: According to some economists, a company's financial performance might be negatively impacted by philanthropy and ESG since companies should prioritize their interests and financial goals.

Lack of Standardized Reporting: Different ESG reporting frameworks and measurement standards make it difficult for organizations and investors to compare ESG performance accurately. The absence of a universally accepted reporting system may reduce transparency and consistency.

Unequal ESG Adoption: Large organizations often possess greater financial and technical resources to implement ESG practices, whereas small and medium-sized enterprises (SMEs) may face difficulties in adopting and maintaining ESG standards.

Weak Regulatory Enforcement: In some regions, limited regulatory oversight and weak enforcement mechanisms can reduce the effectiveness of ESG initiatives. This may allow organizations to make sustainability claims without sufficient accountability.

Public Accountability Concerns: Stakeholders increasingly expect organizations to disclose accurate and transparent ESG information. Inadequate disclosure or misleading reporting can reduce public trust and damage organizational credibility.

Balancing Short-Term and Long-Term Goals: Organizations may face challenges in balancing immediate financial objectives with long-term sustainability commitments. ESG investments often require time and resources before measurable benefits are realized.

VIII. Conclusion:



Environmental, Social, and Governance (ESG) has emerged as an important framework for promoting sustainability, ethical governance, and social responsibility in modern industries. This study examined the key components of ESG and highlighted its significance for businesses, investors, employees, communities, and society. ESG practices contribute to environmental protection, stakeholder welfare, transparency, accountability, and long-term organizational sustainability. The study also identified various advantages of ESG, including improved reputation, stronger stakeholder trust, enhanced risk management, and support for sustainable development. However, challenges such as greenwashing, lack of standardized reporting, implementation costs, and unequal ESG adoption continue to affect its effectiveness. Overall, ESG is not merely a business strategy or investment tool but also an important mechanism for addressing contemporary social realities, promoting community wellbeing, strengthening governance practices, and achieving sustainable development goals.

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