CONTEMPORARY CHALLENGES REGARDING ESG POLICIES AND THEIR INFLUENCE ON BUSINESS

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Abstract: *Environmental, Social, and Governance (ESG) policies have evolved from voluntary ethical guidelines into a major strategic framework influencing corporate governance, investment decisions, and international business practices. Initially associated primarily with corporate social responsibility and sustainable investing, ESG has increasingly become integrated into regulatory systems, financial markets, and stakeholder expectations. This evolution has been accelerated by growing concerns regarding climate change, social inequality, corporate accountability, and long-term economic sustainability. Despite its rapid adoption, ESG implementation continues to face significant contemporary challenges. One of the most important issues is the absence of globally standardized reporting frameworks, which creates inconsistencies in ESG ratings, disclosure practices, and performance evaluation across industries and countries. Companies are often assessed according to different methodologies, making comparisons difficult for investors and regulators. Another major challenge is greenwashing, whereby corporations exaggerate or selectively present sustainability initiatives in order to improve public image without implementing substantial operational changes. This practice undermines transparency, reduces stakeholder trust, and raises concerns regarding the credibility of ESG reporting. Through the analysis of recent corporate practices and international regulatory developments, this paper evaluates the influence of ESG policies on business performance, risk management, corporate reputation, and investor confidence. The study argues that although ESG has become an essential element of contemporary business strategy, its effectiveness remains limited by regulatory fragmentation, measurement challenges, and inconsistent corporate commitment. Consequently, the future development of ESG depends on greater standardization, improved transparency, and stronger accountability mechanisms at both corporate and institutional levels.*

Keywords: *ESG policies; financial performance; modern business; sustainability; resource efficiency; business strategy.*

JEL Classification: *M1; M14*

1. Introduction

Environmental, Social, and Governance (ESG) is a framework that incorporates sustainability, ethical responsibility, and governance practices in addition to traditional financial metrics to assess corporate performance. In light of globalization, climate change, and growing stakeholder expectations, ESG has grown in importance. The United Nations Global Compact report "Who Cares Wins" in 2004 officially recognized ESG, although its roots can be found in earlier iterations of socially responsible investing (SRI). Environmental, social, and governance considerations were first incorporated into financial markets and investment strategies through this initiative. According to the report, businesses that apply ESG principles are more likely to succeed in the long run and generate sustainable value. Stakeholder theory, which contends that businesses must take into account the interests of many stakeholders in addition to shareholders, is the theoretical foundation of ESG. Furthermore, according to legitimacy theory, companies should implement ESG practices in order to uphold their legitimacy and conform to social norms. The influence of normative and regulatory forces on ESG adoption is further explained by institutional theory. ESG encompasses three main pillars: environmental, social and governance. These factors offer a thorough framework for evaluating the long-term viability and sustainability of businesses. ESG has developed into a worldwide phenomenon that affects assets valued at trillions of dollars. Thus, this paper aims to present the evolution of the ESG policies and how these policies are now integrated in companies' business strategies and the impact they have on those. In the next chapter is presented how ESG policies are approached by companies, their evolution and what the rest of the authors think about this topic. In the last three chapters, the paper covers some case studies on well-known companies and their results by integrating ESG policies. The qualitative research methodology used in this work is founded on: analysis of secondary data (reports, institutional publications, and scholarly literature), examination of multinational corporations through case studies. Finding trends in ESG implementation and assessing how they affect strategy and business performance are the main goals of the methodology. Given the fact that the primary goal of the methodology was mentioned, here comes the research question: How do contemporary challenges in ESG policy implementation influence business strategy and performance? Sub question: Is there a possible relationship between ESG and financial performance? This paper aims to add, beyond prior literature aspects regarding the growth in importance of the ESG policies and how they succeed in establishing such an indispensable relationship with businesses' strategies. The contribution of this paper is trying to be a preliminary framework for future empirical testing.

2. Literature review and empirical background

Recent empirical work points to how quickly ESG investing has spread, and how central it has become in mainstream financial markets. In one global survey of more than 1,100 institutional investors, reported ESG adoption rose from 84% in 2021 to 90% in 2023, a shift that signals ESG is now close to standard practice in portfolio decision-making. Capital is also being directed with ESG in mind: for many institutions, ESG ratings now sit among the strongest inputs shaping what gets funded and what does not (Bioy and Wang, 2024). The asset base has climbed as well. Morningstar figures show global ESG fund assets at about $3.3 trillion in 2024, increasing from roughly $3.1 trillion in the prior quarter. As Scholle mentioned in his article (2026) taken together, these numbers line up with a clear, continuing rise in investor appetite for sustainable investment options. However, the literature also reveals contradictions. While some studies show a positive correlation between ESG performance and institutional investment flows, others indicate mixed or negative impacts on financial performance in certain sectors, such as the cruise industry. Research also traces ESG back through its long history, tying it to older ethical investing traditions that go back hundreds of years. What people now call “modern ESG” took clearer shape alongside global efforts like the Principles for Responsible Investment (PRI) and the rise of sustainability reporting frameworks. This paper is different from existing reviews because it suggests how the bond between digitalisation and integration of ESG policies might save the future of companies that are open to integrate such aspects.

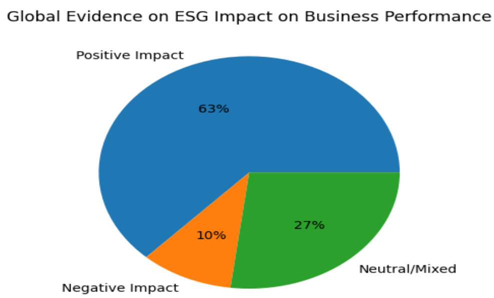

Figure. 1. Distribution of ESG Impact on Business Performance
Source: Friede, G., Busch, T., & Bassen, A. (2015), *ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment*, 5(4), 210–233. https://doi.org/10.1080/20430795.2015.1118917

In Fig. 1 there is presented how the impact the integration of ESG policies might have on company business’ strategy and their financial performance. The majority of the sources state that ESG integration has a positive impact on businesses, while some other sources consider that there is a neutral impact. Only 10% of the sources believe that ESG integration has a negative impact, which, regarding this paper’s topic stands as the first evidence that might show the importance of this research, considering such a small number of sources believing ESG having a negative impact.

The qualitative research methodology used in this work is founded on: analysis of secondary data (reports, institutional publications, and scholarly literature) and an examination of multinational corporations through case studies. Finding trends in ESG implementation and assessing how they affect strategy and business performance are the main goals of the methodology. The methodology focuses on identifying patterns in ESG implementation and evaluating their impact on business performance and strategy.

3. ESG in practice

Right now, ESG, short for Environmental, Social, and Governance, isn't sitting on the sidelines as a neat set of ideas. It has become a day-to-day priority that companies fold into strategy and execution. Instead of broad statements, ESG work is often tied to clear metrics, reporting that connects across the business, and results that show up in financial and operational performance. On the environmental side, many firms are setting plans that track with global climate objectives, including net-zero pathways. Microsoft is a frequently cited case. It has pledged to become carbon negative by 2030 and has said it already cut its Scope 1 and 2 emissions by more than 17% against a 2020 baseline (Smith, 2020). Alongside those reductions, the company has put over $1 billion into carbon removal technologies. Taken together, this shows what it looks like when environmental ESG moves from intent to action, with targets that can be measured and money assigned to meet them. Tesla offers a different angle, weaving ESG into the core of what it sells. By focusing on electric vehicles and renewable energy solutions, it positions environmental outcomes as part of its business model. In 2023, Tesla delivered more than 1.8 million vehicles worldwide, a scale that supports lower transportation-related emissions. The social dimension of ESG focuses on human capital, diversity, and stakeholder relationships. Unilever provides a strong example through its Sustainable Living Plan, which has reached over 1 billion people with health and hygiene programs. Additionally, the company reports that more than 60% of its management positions are held by women, highlighting measurable progress in diversity and inclusion. Another relevant example is Nike, which has invested heavily in improving labor conditions within its supply chain. Nike publishes detailed sustainability reports, including supplier audits and compliance metrics, demonstrating increased transparency in social ESG practices.

Even with how quickly ESG has expanded, it keeps running into a few serious obstacles. Lack of Standardization: A major sticking point is that there still isn't a single, shared set of ESG reporting rules. Rating firms grade companies using different yardsticks and formulas, so the very same business can end up with conflicting scores depending on who is doing the scoring. That makes side-by-side comparisons harder and leaves investors guessing. Greenwashing: It is when ESG claims get oversold. A company might advertise sustainability programs that sound impressive but deliver little in practice, and once that gap shows up, confidence in ESG, and the tools built around it, starts to erode. Regulatory Complexity: Rules for ESG differ widely by location. The European Union, for instance, has moved ahead with demanding sustainability disclosure requirements, while other areas are working with looser or less settled systems. For companies operating in multiple countries, keeping up can turn into a complicated compliance puzzle. Financial Performance Debate: There's still no settled answer on how ESG links to financial results. Some research finds a positive connection, but other work points to outcomes that are flat, or even negative, depending on the sector. Data and Measurement Issues: A lot of ESG scoring depends on information companies report about themselves, and that data can be uneven, hard to verify, or presented without full clarity. The result is persistent doubt about how dependable, consistent, and unbiased ESG assessments really are.

4. Short Case Study: Unilever and ESG-driven Financial Performance

Unilever is one of the world’s largest consumer goods companies, operating in over 190 countries with brands in food, home care, and personal care. It is widely cited as a benchmark for ESG integration. ESG Planning and Execution: Environmental (E):

- 52% reduction in CO2 emissions per production unit (2010–2020)
- 95% of waste was diverted from landfills.
- greater utilisation of sustainable sourcing and renewable energy

Social (S):

- better health and wellbeing as a result of product reformulation
- encouraged supplier standards and fair labor practices
- supply chains that empower women and smallholder farmers

Governance (G):

- a Global Sustainability Board was established.
- executive pay linked to ESG goals
- enhanced openness via ESG reporting platforms

In 2010, the company unveiled the Unilever Sustainable Living Plan, a long-term framework designed to align social impact, governance, and environmental sustainability with broad business objectives. Rather than viewing ESG as a compliance requirement, Unilever prioritized sustainability in its brand development, supply chain management, and operational decision-making. Over time, this strategic integration produced measurable financial outcomes. One of the most crucial indicators of success was the performance of Unilever’s "sustainable living brands," which were products closely linked to social or environmental objectives. These brands consistently outperformed the rest of the portfolio, growing at a rate of roughly 69% faster and contributing roughly 75% of the company’s overall growth. This shows a clear link between revenue growth and ESG-oriented product positioning, indicating that consumer demand is favouring businesses that are seen as ethical and mission-driven. When a company like Unilever focuses on sustainability and ethics, it can have a big impact on its finances. This is not just about saving money or making more sales, but also about building a strong reputation. When people think of Unilever’s products, they think of a company that cares about the environment and does the right thing. This makes customers more loyal and more likely to choose Unilever over other brands. In a market with many similar products, having a good reputation can be a key way to stand out and stay ahead of the competition. As a result, Unilever has been able to keep and even grow its share of the market. But the case also draws attention to significant issues. The company occasionally faced criticism from investors who were worried about striking a balance between sustainability objectives and short-term profitability, and implementing ESG at such a scale required a large upfront investment and organizational transformation. As a result, like some reports from AIM (European Brands Association, 2020) present, there was a slow transition to a more balanced strategy in which ESG initiatives are still crucial but are now more clearly linked to financial performance goals. The Unilever case is a great example of how considering the environment and society can actually help a business grow. When a company really makes these concerns a part of its overall plan, daily operations, and leadership, it can lead to some impressive benefits. For instance, Unilever found that focusing on sustainability led to increased revenue, better use of resources, a stronger brand image, and the ability to withstand challenges over time. This shows that taking care of the planet and people can also be good for the bottom line, creating a win-win situation where both the business and society benefit. By making environmental and social concerns a central part of its strategy, Unilever demonstrates that it's possible to achieve economic success while also making a positive impact on the world.

5. Short Case Study: Nike and the positive impact of ESG integration

The case of Nike illustrates how ESG integration can influence financial performance not only through direct revenue growth, but also through innovation, operational efficiency, and brand strength in a highly competitive global market. Over the past decade, Nike has progressively embedded environmental, social, and governance principles into its long-term strategy, particularly through its "Move to Zero" initiative and its broader sustainability targets for 2025. Rather than treating ESG as a compliance exercise, the company positioned sustainability as a driver of product innovation and consumer engagement, aligning its environmental goals with its core business model. One of the biggest effects of this plan is how it's changed the way products are made and new ideas are created. Nike has been using more eco-friendly materials in its products, with about 39% of them already considered good for the environment. This has helped cut down on greenhouse gas emissions by over 182,000 metric tons. Not only is this better for the planet, but it's also what customers are increasingly looking for, which has helped Nike stay ahead of the competition. At the same time, the company has been coming up with new, sustainable design ideas, like ways to make things with less carbon and using recycled materials (Nike, 2022; Nike, 2023). This has allowed Nike to stand out from the crowd and make its products more valuable, rather than just seeing sustainability as an extra cost. Nike's efforts to be more socially responsible have really paid off. By treating everyone fairly, like paying women and minorities the same as others, and giving them more leadership roles, the company has created a more welcoming work environment. This has also helped Nike connect with its customers on a deeper level, especially younger people who care about doing what's right for the planet. The company's big investments in local communities, over $140 million each year, have made a real difference and improved its public image. As a result, Nike has built stronger relationships with its customers and set itself up for long-term success. By being a brand that values ethics and sustainability, Nike is appealing to the growing number of young consumers who want to support companies that share their values. Nike has really improved its performance by being open and honest about its impact on the environment and society. This has helped the company build trust with its stakeholders and be more accountable for its actions. By being transparent, Nike has also improved its reputation and made itself more attractive to investors who care about sustainability. This is important because it helps the company stay stable in the long term and have access to the capital it needs to keep growing. As Nike itself says, being transparent about its sustainability goals and progress is key to managing risks, increasing productivity, and planning for the future. By doing so, Nike is setting itself up for success and making sure it can keep expanding and improving over time.

Even though Nike had numerous positive outcomes by integrating ESG policies, this case also highlights some challenges:

- faced periods of revenue decline and margin pressure due to macroeconomic factors and market shifts
- financial benefits are often: long term, indirect (brand, risk, efficiency)
- short-term profitability may fluctuate

In conclusion, Nike provides evidence that: even if you don't see the results right away, making ESG a part of your business strategy can lead to some real benefits. For one, it can make your operations more efficient, which is a big plus. It can also boost your brand's value and lead to better financial performance over time. Now, it's true that the financial benefits might not happen overnight, and they might not always follow a straight line. But what we've learned is that when you make ESG a core part of your strategy, it can give you a real edge over the competition and help you grow in the long run, especially in a world where sustainability is becoming more and more important.

6. Conclusion

Environmental, Social, and Governance (ESG) frameworks have developed into an essential part of modern business strategy, greatly impacting financial performance and corporate decision-making. As investors place a higher priority on sustainability-linked performance metrics, empirical data indicates that companies with strong ESG integration typically enjoy better risk management, increased stakeholder trust, and easier access to capital. However, because results differ across industries, geographical areas, and methodological approaches used in ESG scoring systems, the relationship between ESG and financial outcomes is not consistent. One of the main conflicts in the field is reflected in this heterogeneity: although ESG is generally acknowledged to increase value over time, its short-term financial impact is still context-dependent and occasionally unclear. ESG is currently in a crucial phase of institutional consolidation. On the one hand, it has successfully transitioned from a voluntary initiative to an expected business norm, becoming deeply ingrained in international financial markets, regulatory frameworks, and corporate reporting standards. Despite the many benefits, there are still some big hurdles that prevent ESG from reaching its full potential. For example, there's no standard way to measure it, companies don't always disclose the same information, and the data can be unreliable. Plus, some people are worried that companies are just pretending to care about the environment and social issues, which is known as greenwashing. All these issues make it hard to compare companies and can erode trust among investors. That's why we need better rules and global standards to guide ESG. Right now, ESG is a powerful tool for creating a more sustainable future, but it's still a work in progress with many challenges to overcome. The key to its success will be how well regulators, investors, and companies can work together to create a more transparent and consistent system that actually leads to real-world results. If they can do that, ESG can be a game-changer, but if not, it might struggle to make a meaningful impact.

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