Page 618 - 623 DOI: https://doij.org/10.10000/IJLSI.111961

INTERNATIONAL JOURNAL OF LEGAL SCIENCE AND INNOVATION

[ISSN 2581-9453]

Volume 6 | Issue 3

2024

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From CSR to ESG, How has Corporate Governance Evolved

SHRADHA PATIL[1]

ABSTRACT

ESG and CSR standards stem from the desire for corporations to benefit society. Companies have been researching ways to enhance the community and the environment through their activities. A more dynamic strategy considering an organization's internal and external aspects has replaced outward-looking analysis. Misunderstanding the differences between ESG and CSR leads to the interchangeability of both terms. Though similar, these concepts serve different goals and have other qualities.

This paper will throw light on the concept of CSR and ESG and their evolution. It will also discuss changes resulted from CSR to ESG considerations in corporate governance processes in an elaborative manner.

Keywords: *CSR, ESG, corporate, governance, environment, interchangeability.*

I. INTRODUCTION

CSR was the prevailing term for sustainable corporate practices approximately ten years ago. CSR, now considered old and outdated, primarily functions as a marketing tool in contemporary times, enabling corporations to engage in symbolic gestures. CSR, or Corporate Social Responsibility, can be described as a managerial ideology followed by profit-making businesses. It involves utilizing societal resources to contribute to society through philanthropic and humanitarian initiatives. By implementing corporate social responsibility (CSR) initiatives, engaging in charitable activities, and actively participating in volunteer work, firms can simultaneously enhance their brand image and contribute to the betterment of society.[2]

There is a common misunderstanding that CSR programs are exclusively embraced by major corporations that have expanded their operations to the extent where they can contribute to the community. Small and mid-sized enterprises have also established social responsibility programs, although their efforts have not been as widely recognized as those of more giant corporations.

[1] Author is a LL.M. student at RV University, India.
[2] Pollman E, 'Corporate Social Responsibility, ESG, and Compliance' [2021] 13 The Cambridge Handbook of Compliance 662.

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Moreover, when a firm becomes more prominent and achieves tremendous success, it bears a greater need to establish benchmarks of ethical conduct for its counterparts, rivals, and the entire industry. Indeed, in 2010, the International Organization for Standardization (ISO) published a series of non-mandatory standards to assist corporations in adopting corporate social responsibility (CSR) practices. ISO 26000 provides a clear definition of social responsibility and assists enterprises in implementing CSR principles through tangible measures. The standard applies to businesses of all kinds, irrespective of their industry, scale, or geographical location. Technological progress has made measuring a company's utilization of natural resources, conflict minerals, social composition and influence, and good governance feasible. This is where Environmental, Social, and Governance (ESG) factors come into play.[3]

Corporate Social Responsibility preceded ESG. ESG is contingent upon the existence of CSR. CSR endeavours to establish responsibility within a firm, whereas ESG standards provide a means to quantify the effectiveness of these efforts. CSR, or Corporate Social Responsibility, is a method of voluntary regulation that ensures a company's activities have a beneficial influence on the environment, consumers, employees, communities, and the public domain.

ESG expands upon CSR by transforming it from a purely charitable concept into a quantifiable framework that investors and customers can utilize to evaluate a company's philanthropic, social, and internal governance initiatives.

ESG offers measurable metrics encompassing environmental, ethical, and corporate governance concerns, such as monitoring the company's carbon emissions and ensuring the implementation of appropriate processes to assess accountability. It uses quantitative data to determine how organizations handle their employees, oversee supply chains, address climate change, promote diversity and inclusion, and establish connections with the community.

(A) Research Questions

1. How has the change from CSR to ESG considerations in corporate governance processes affected firms' sustainability performance?
2. What effects do the changes that resulted from the transition of CSR to ESG have on board decisions, shareholder relations, and organizational strategy?
3. How have corporate governance advances eased the transfer from CSR to ESG, and how might they help modern enterprises engage stakeholders and create long-term

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[3] Çalıyurt KT, *New Approaches to CSR, Sustainability and Accountability, Volume III* 69-88 (Springer Nature 2022).

value?

(B) Statement of Problem

ESG replaced CSR in corporate governance. CSR focuses on philanthropy and commercial ethics, but ESG covers many topics. It addresses sustainability and stakeholder engagement. This change presents significant challenges regarding incorporating environmental and social factors into governance frameworks and monitoring and communicating ESG performance. Companies must link ESG principles with their goals to achieve accountable and sustainable business operations, transforming governance and stakeholder involvement.

(C) Research Methodology

The research methodology adopted for making this dissertation is doctrinal in nature. The theoretical study focused on court judgments. The research also included an exhaustive look through book collections, scholarly publications, and case laws, among other sources.

II. Emergence of Corporate Social Responsibility to ESG

A growing body of data has shown that environmental, social, and governance (ESG) aspects may have a significant financial impact on a company's success during the past decade. ESG reporting and disclosures are increasingly being demanded by employees, customers, business associates, and investors alike. [4]

That's because in 2019, 86% of S&P 500 businesses produced sustainability or corporate governance reports, which shows that stock exchanges and corporations are reacting to the growing need for disclosure and accountability.

It is vital to have a strong portfolio that draws investment to have ESG reporting. In order to fully understand and regulate their effect on people and the environment, organizations may utilize ESG reporting to detect and mitigate risks, exploit opportunities, and take measures that generate brand value and trust, among other benefits. Companies and enterprises may build a solid basis for credible reporting by starting with certain essential basic concepts, regardless of whether they are just commencing the ESG disclosure process or reconsidering the reliability and usefulness of present reporting systems.

Almost no aspect of a company's day-to-day operations is unaffected by ESG. ESG considerations are not entitled to equal confidence when it comes to investments. It is

[4] Broadstock DC and others, ‘Does Corporate Social Responsibility Impact Firms’ Innovation Capacity? The Indirect Link between Environmental & Social Governance Implementation and Innovation Performance’ (2020) 119 Journal of Business Research 99.

improbable that a company would emphasize all ESG concerns in their business strategy, just as every market investor has various values and motives. Environmental, social and economic factors influence which issues are most relevant to investors and organizations at a particular moment. Those that are prioritized by investors and organizations are decided by the specific conditions of a firm. Investors are influenced by a number of important ESG factors.[5]

Global warming and other ecological calamities such as habitat destruction are being addressed by a wide range of organizations. In other words, have or are they on their path to reaching net-zero emissions. In addition to that equal opportunity and diversity in the workplace among other things, how many of the company's personnel identify as belonging to underrepresented groups? How diversified is the management team etc. are taken into consideration.

The United Nations (UN) has campaigned for business sustainability and sustainable investing for decades. The UN Global Compact provides ten principles to assist firms keep their basic duties to people and the world while promoting long-term prosperity. These principles help organizations become more principle-based in their business practices.

The conceptual framework of CSR has expanded at a dizzying rate since its inception in the early 1950s. What started out as a theory in management has now spread to various disciplines, including political science, economics, and business management. Although this has substantially advanced our knowledge and methods, it has also added complexity to an already nebulous notion by including diverse perspectives from many disciplines. For example, economics will approach CSR in a very different way than political science. Using CSR as an economic tool is like doing a cost-benefit analysis with a million possible control variables and a mathematical equation with confounding variables. Apart from its effect on financial performance, the implementation of CSR practices for various stakeholder audiences as a means of corporate communication is more important for company management. Politicians must decide how much, when, and under what circumstances to regulate businesses, and how this will affect the distribution of power.

Companies can take the shape of exploitative, transactional, responsive, or transformative multinational enterprises (MNEs) when they gain legitimacy and enter new social marketplaces. From least socially invested to most, here is a list of multinational enterprises (MNEs) according to their level of social investment: exploitative MNEs take advantage of a host country's lax legal protections to exploit its workers or resources; transactional MNEs

[5] Vertigans S and Idowu SO, *Global Challenges to CSR and Sustainable Development: Root Causes and Evidence from Case Studies* 125-131 (Springer 2021).

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aren't quite as exploitative, but they do use legal advantages to gain a competitive advantage; responsive MNEs are more attentive to stakeholder input and exceed basic legal requirements in setting standards; and transformative MNEs dedicate the firm's purpose to social investment and concentrate on addressing local needs.[6]

III. Evolving role of ESG

Socially conscious investors evaluate a company's sustainability and social impact using "ESG"—Environmental, Social, and Governance. This is done utilizing investor-relevant metrics. ESG matters are significant to firms that promote sustainability and investors seeking socially responsible investment prospects. ESG concerns have become crucial for compliance and risk managers and prospective investors. They now require financial performance data and evaluate a company's governance, social responsibility, and environmental impact. These factors collectively determine the overall performance of the target company. The aftermath of the COVID-19 epidemic has allowed businesses to evaluate and reevaluate nearly every facet of their operations thoroughly. As a result, there has been an increased focus on ESG compliance following the pandemic, as governments are now dedicated to promoting an environmentally friendly recovery.

The primary objective of investing in ESG as a business is not centred around generating profits. ESG aims to assess the extent to which a company's actions adhere to ethical standards, prioritizing sustainability and moral ideals over financial gain. ESG, or Environmental, Social, and Governance, is a measurable indicator of a company's sustainability and social impact. It utilizes essential indicators for investors, particularly as an increasing number of millennial investors opt to support socially responsible organizations that align with societal shifts. ESG investment has transitioned from a niche sector to a strategy primarily driven by personal preferences or opinions. Several conventional institutional investors are currently using ESG techniques, believing that it will enhance their comprehension of the risks associated with the companies they invest in. When investors and lenders observe that a firm is well-managed and is actively mitigating risks that could affect its ability to withstand challenges, they develop a sense of assurance that the loan carries a reduced level of risk.[7]

Ignoring environmental, social, and governance (ESG) considerations could cost investors. In addition to investors, consumers are increasingly willing to pay more for sustainable products.

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[6] Dathe T and others, 'Corporate Social Responsibility (CSR) versus Environmental Social Governance (ESG)' [2022] 24 Management for Professionals 117.

[7] Tracy Dathe, *Corporate Social Responsibility (CSR), Sustainability and Environmental Social Governance (ESG): Approaches to Ethical Management* 106-112 (Springer 2023).

Consumers now weigh social considerations when buying. To attract and retain customers, organizations must emphasize product quality and cost and implement sustainable, socially responsible, and ecologically mindful business practices. These emerging patterns show corporations need to provide more ESG disclosures.

IV. CONCLUSION AND SUGGESTIONS

ESG will be vital to future built environment management. Environmental, Social, and Governance (ESG) factors must be integrated into an organization's decision-making processes throughout a project's origin, design, construction, occupancy, and disposal. Transparent and purpose-driven company practices are gaining momentum. Asset managers, consumers, and employees want organizations to meet their goals. According to the Global Reporting Initiative, 93% of the world's most successful companies published their ESG performance in 2019. ESG (Environmental, Social, and Governance) influences multinational firms' business practices, as seen by their need to disclose their efforts in this area. Travel and industrial activities have slowed due to the coronavirus epidemic, benefiting the environment. The epidemic has taught us to monitor the well-being of those around us, care for our communities, and prioritize employees' physical and mental health. Investors will prioritize priority as the world recovers from COVID-19, and ESG problems will become more prominent in investing strategies.

(A) Suggestions

- Investors like private shareholders, banks, and substantial funds will consider environmental, social, and governance (ESG) criteria when making financial decisions. The Securities and Exchange Commission (SEC) recommends mandatory ESG reporting.
- Companies seeking contract approval and development approval will encounter more ESG evaluations.
- Strategically managed ESG goals can reduce supply chains, streamline operations and logistics, lower costs, and create new business opportunities.
- Companies with a strong ESG record may have an advantage in hiring in a competitive job market.
- Environmental, Social, and Governance (ESG) programs can improve employee happiness, efficiency, and retention by including the entire firm. Community involvement and support can boost a company's long-term prospects and social license.

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