

The ESG Imperative: Transforming Profit Logic in Business and Policy

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Abstract

The rise of Environmental, Social, and Governance (ESG) principles marks a fundamental shift in how firms and policymakers understand value creation. This conceptual research paper explores how ESG is challenging the traditional economic logic of profit maximization, specifically the classical model where firms optimize output at the point where marginal revenue equals marginal cost ($MR = MC$). Tracing ESG's evolution from early roots in corporate social responsibility and stakeholder theory, the study analyzes its growing influence on corporate governance, strategic management, and regulatory design. Each ESG pillar is examined in depth, with comparative insights from both developed (e.g., the United States, European Union) and emerging economies (e.g., India, Brazil, China, and African markets). The analysis reveals a global transformation: firms are increasingly integrating sustainability into core operations, addressing environmental and social externalities, and adopting governance models that reflect stakeholder interests. Key trends, such as net-zero commitments, diversity mandates, and mandatory sustainability disclosures, underscore ESG's institutionalization across sectors and regions. While implementation challenges remain, including standard fragmentation and political resistance, the ESG imperative signals a departure from narrow shareholder primacy toward a broader, purpose-driven model of capitalism. This paper offers a comprehensive synthesis of how ESG is reshaping the logic of profit, strategy, and policy in the 21st century.

Keywords

Environmental, Social, and Governance, Stakeholder Capitalism, Corporate Governance, Profit Maximization, Sustainable Business Strategy, Triple Bottom Line, Regulatory Policy, Emerging Markets, Climate Disclosure, Ethical Investment, Sustainable Finance, Corporate Purpose, Global ESG Standards.

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Introduction

Throughout much of the 20th century, corporate success was defined primarily by profitability, guided by the neoclassical principle that firms maximize profit by producing where marginal revenue equals marginal cost ($MR = MC$). This formula, rooted in the shareholder primacy model famously championed by Milton Friedman in 1970, positioned social and environmental concerns as external to the firm's core economic objectives (Sustainability Directory, n.d.). In recent years, however, this traditional paradigm has come under increasing scrutiny. The emergence of Environmental, Social, and Governance (ESG) principles reflects a growing recognition that businesses must account for a wider array of stakeholder interests. The title of this paper, *The ESG Imperative: Transforming Profit Logic in Business and Policy*, captures this shift, arguing that the conventional $MR = MC$ equation no longer encompasses the full range of modern corporate responsibilities.

The growing prominence of ESG is driven by converging global pressures and changing values. Climate change and environmental degradation have highlighted the limitations of a profit-centric model that overlooks ecological costs. Rising social inequality and labor-related challenges have intensified calls for corporate accountability, while notable governance failures have diminished public trust in business leadership. In response, firms and policymakers are increasingly integrating ESG criteria into strategic and operational decision-making. Originally introduced in 2004 by the United Nations Global Compact, the ESG framework urged investors to account for environmental, social, and governance factors in financial assessments (Zimon et al., 2024). What began as a voluntary corporate social responsibility initiative has since evolved into a mainstream strategic imperative: by the early 2020s, ESG investing and reporting had become widespread among major corporations, and stakeholder-oriented governance models were gaining traction over traditional shareholder-first approaches (Mhlanga & Moloji, 2022; Nogueira et al., 2023).

One of the most visible turning points occurred in 2019, when the Business Roundtable - an influential coalition of top U.S. CEOs issued a groundbreaking statement redefining the purpose of a corporation as serving all stakeholders, not just shareholders. The following year, the World Economic Forum's 2020 Davos Manifesto further endorsed stakeholder capitalism, calling on companies to create long-term value aligned with societal objectives (Mhlanga & Moloji, 2022). These developments reflect a fundamental shift in business and policy ideology. No longer are sustainability efforts viewed as a "tax" on profits, as Friedman once implied (Sustainability Directory, n.d.); instead, many firms now regard ESG integration as essential to long-term value creation, risk management, and corporate legitimacy.

Methodology

This paper employs a *conceptual research methodology* centered on an integrative literature review and qualitative analysis of global ESG trends. Given that our aim is to

synthesize ideas and developments rather than test a specific hypothesis with original data, we draw on a wide range of secondary sources. These include academic journal articles (particularly open-access studies on ESG performance, stakeholder management, and corporate governance), institutional and regulatory reports (from bodies such as the OECD, United Nations, World Economic Forum, and various government agencies), white papers by industry or consulting groups, and case examples reported in credible media or practitioner outlets. The approach is interdisciplinary, incorporating insights from economics, finance, management, law, and public policy.

Literature Review

From Shareholder Value to Stakeholder Theory

Classical economic theory long held that a firm's sole obligation is to maximize profits for its owners. The condition $MR = MC$ is a cornerstone of microeconomics, defining the equilibrium where expanding production would no longer increase profit. This profit maximization norm underpinned the shareholder primacy doctrine dominant in the 20th century. Milton Friedman's famous 1970 essay encapsulated this view, asserting that corporate executives' only "social responsibility" is to increase shareholder wealth. Any diversion of resources into social or environmental causes beyond legal requirements was viewed as an inefficiency or even a breach of fiduciary duty under this paradigm. The $MR = MC$ rule, in effect, presumes that firms operate in a vacuum where social costs are externalized and unpriced. Indeed, an inherent flaw of the traditional model is that it assigns a monetary value of zero to critical public goods and externalities - clean air, stable climate, worker welfare, community well-being - thereby excluding them from the profit calculus (Sustainability Directory, n.d.).

Over the past few decades, however, a rich body of scholarship has challenged the narrow focus on shareholder value. Stakeholder theory, introduced by R. Edward Freeman in 1984, argues that companies have responsibilities to all parties affected by their operations - not only shareholders, but also employees, customers, suppliers, communities, and the environment. This perspective dovetails with earlier calls for corporate social responsibility and has gained traction as the limitations of pure profit maximization became evident. The *triple bottom line* (TBL) framework, coined by John Elkington in the 1990s, encapsulates this broadened view by positing that businesses should measure success in three dimensions: profit, people, and planet. In practice, the TBL approach means balancing financial performance with social equity and environmental sustainability, treating all three "P's" as interdependent goals. As one recent study put it, stakeholders have pressured companies to "abandon the economic view" and adopt the TBL approach, recognizing that profitability, social impact, and ecological health must all be evaluated together. This represents a paradigm shift whereby profitability is no longer the sole measure of organizational success - long-term value creation now explicitly includes outcomes for stakeholders and the natural environment (Nogueira et al., 2023).

The concept of stakeholder capitalism has moved from theory into mainstream dialogue in the 21st century. Supporters argue that considering stakeholders is not just ethically sound but can also enhance long-term corporate resilience and performance. The World Economic Forum (WEF) has been a vocal proponent, asserting that fulfilling the interests of all stakeholders is key to sustainable profitability and societal well-being. At WEF's 50th annual meeting in Davos 2020, leaders emphasized aligning corporate goals with the United Nations Sustainable Development Goals and the Paris Agreement on climate change. Around the same time, as noted, 181 CEOs of the US Business Roundtable signed a new statement of corporate purpose embracing stakeholder commitments (Mhlanga and Moloji, 2022). These high-profile endorsements indicate a significant shift in expected business norms.

It is important to note that the stakeholder approach is not without debate. Some scholars caution that "stakeholder capitalism" can become an ill-defined concept: who counts as a stakeholder and how to balance conflicting interests remain challenging questions (Mhlanga and Moloji, 2022). Critics also warn of "greenwashing" or "purpose washing," wherein firms pay lip service to stakeholders or ESG goals without substantive changes to profit-driven behavior. Nonetheless, there is a growing convergence between ethical arguments and economic arguments in favor of stakeholder-oriented management. A substantial body of empirical research has investigated whether attention to ESG factors detracts from, or contributes to, financial performance. Contrary to the traditional assumption of a trade-off, many studies have found a neutral or positive relationship between strong ESG performance and financial outcomes. In a 2015 meta-analysis aggregating over 2,000 empirical studies, Friede, Busch, and Bassen concluded that the business case for ESG is empirically very well-founded: roughly 90% of studies found a non-negative relationship between ESG criteria and corporate financial performance, with the large majority reporting positive correlations. These findings have been corroborated by more recent reviews covering hundreds of more studies through the 2010s, which generally show that companies with robust sustainability practices often enjoy equal or better returns and lower risks compared to less sustainable peers (Friede et al., 2015). While correlation is not causation, the weight of evidence has given credence to the view that doing good can go hand-in-hand with doing well - especially over the long term.

Definition and Scope of ESG

ESG stands for Environmental, Social, and Governance - three broad pillars that collectively capture the key areas of sustainable and ethical business performance. The *Environmental (E)* pillar concerns a company's impact on and stewardship of the natural environment. This includes issues like climate change mitigation (e.g., reducing greenhouse gas emissions, transitioning to renewable energy), pollution and waste management, resource efficiency, biodiversity conservation, and how firms handle environmental risks and opportunities. The *Social (S)* pillar addresses a firm's relationships with employees, customers, suppliers, and communities. It covers labor practices (worker safety, fair wages, diversity and inclusion, training and development),

human rights throughout the supply chain, consumer protection and product safety, community engagement and development, and broader societal impacts (for instance, does the firm's product harm or help public health?). Finally, the *Governance (G)* pillar relates to corporate governance and ethical leadership. This includes board structure and independence, shareholder rights, executive compensation, transparency and disclosure, anti-corruption and legal compliance, and the mechanisms in place to ensure accountability and alignment with stakeholder interests. In essence, governance provides the infrastructure through which environmental and social objectives are implemented and monitored.

Originally, much of the ESG agenda evolved out of earlier movements like corporate social responsibility (CSR) and sustainable development. The term "ESG" itself gained prominence after the 2004 UN Global Compact report "Who Cares Wins," which argued for integrating ESG factors into capital markets and investment decisions (Zimon et al., 2024). Over the subsequent years, various frameworks and guidelines emerged: the Global Reporting Initiative (GRI) standards for sustainability reporting, the Carbon Disclosure Project (CDP) for emissions transparency, the ISO 26000 standard for social responsibility, and many others. Investors also took initiative - the UN-supported Principles for Responsible Investment (PRI) launched in 2006, and as of 2023 it has over 5,000 signatories managing more than \$120 trillion in assets, all committed to incorporating ESG into their investment analysis. This investor momentum has reinforced the importance of ESG data and performance for companies seeking capital. As a result, ESG ratings agencies (MSCI, Sustainalytics, S&P Global, etc.) now evaluate companies on a host of ESG metrics, and ESG-themed investment funds have proliferated across global markets.

A crucial aspect of ESG's rise is the alignment of long-term financial value with sustainable practices. Traditional $MR = MC$ thinking often prioritized short-term profit maximization, which could incentivize cutting corners on environmental or social safeguards (since those costs were externalized to society). Under an ESG framework, however, many of those once-external costs are being internalized - either voluntarily, through corporate initiative, or through regulatory compulsion. For example, a company may proactively invest in cleaner technology that increases its marginal cost in the short run, reducing immediate profit, but this is justified by longer-term benefits like lower regulatory risk, energy savings, and reputational gains. Or a firm might cap production below the theoretical $MR = MC$ output level to avoid over-exploiting a natural resource or to maintain product quality and fair labor conditions, thereby aligning with the E and S pillars. Sustainable business strategy thus often entails redefining optimal output and growth in light of ESG constraints and objectives. Academic theories such as shared value (Porter & Kramer) propose that businesses can generate economic value in a way that also produces value for society by addressing its challenges, effectively expanding the value creation equation beyond profit alone.

Global Developments and Institutional Drivers

The literature also points to significant differences - as well as growing commonalities - in how ESG thinking has been adopted across different jurisdictions and markets. In developed economies, particularly in Western Europe, there has been a strong regulatory push to formalize ESG considerations. The European Union, in particular, has been at the forefront of sustainable finance and corporate sustainability legislation. The EU's 2014 Non-Financial Reporting Directive first required large companies to disclose policies and performance on environmental, social, and employee matters, human rights, and anti-corruption. This has since been superseded by the new Corporate Sustainability Reporting Directive (CSRD) adopted in 2022, which dramatically expands the scope and standardization of ESG disclosures for companies operating in the EU. Moreover, the EU's Sustainable Finance Action Plan led to the creation of an official EU Taxonomy defining sustainable economic activities and the Sustainable Finance Disclosure Regulation (SFDR) imposing ESG transparency on asset managers. These moves demonstrate an evolving view that robust disclosure of sustainability information is essential for efficient markets and informed investor decisions (OECD, 2023a).

Across virtually all developed markets, reporting on ESG metrics has become near standard for large firms. By 2021, almost 8,000 companies worldwide - representing 84% of global market capitalization - were disclosing sustainability information in some form. While Europe leads in mandatory requirements (95% of European market cap companies disclosed sustainability data in 2021), even markets with more voluntary regimes like the U.S. and Asia have seen high uptake (e.g., 66% of market cap in China, despite China only recommending ESG disclosure rather than mandating it). This trend reflects not only regulation but also investor pressure and normative expectations. The OECD's 2023 Corporate Governance Factbook finds that all surveyed jurisdictions worldwide have introduced at least some provisions or recommendations regarding sustainability disclosure. Nearly two-thirds of jurisdictions now legally require certain ESG disclosures (either through laws or listing rules), while most others adopt a "comply or explain" code-based approach (OECD, 2023a). Furthermore, corporate governance codes have increasingly incorporated sustainability - for instance, many now call for boards to consider ESG risks and some even link executive remuneration to sustainability performance. The G20/OECD Principles of Corporate Governance were revised in 2023 to include a new chapter on "sustainability and resilience," underscoring that effective governance must encompass management of climate and other sustainability risks for the long-term success of companies (OECD, 2023b).

In the United States, the approach to ESG has been more market-driven, but significant shifts are underway. Many U.S. companies voluntarily produce sustainability reports (often following frameworks like SASB or TCFD), and institutional investors such as BlackRock have publicly advocated for investee companies to address ESG issues as a matter of risk management. In 2022, the U.S. Securities and Exchange Commission (SEC) proposed landmark rules to require climate-related risk disclosure in financial

filings. The SEC's proposed climate disclosure rule (finalized in 2024) would have mandated companies to report their greenhouse gas emissions, climate governance and risk management processes, and climate-related targets or transition plans. However, the rule became mired in legal and political challenges: various state attorneys-general and industry groups sued the SEC, arguing it overstepped authority. By March 2025, a change in SEC leadership led to the Commission ceasing its defense of the climate disclosure rules, effectively halting implementation (U.S. Securities and Exchange Commission, 2025). This episode highlights that ESG's momentum in the U.S. is encountering political polarization, with some states promoting "anti-ESG" measures (e.g., restricting public pension funds from considering ESG factors). Even so, many U.S. companies continue to pursue ESG initiatives due to investor demand, consumer expectations, and emerging state-level regulations (such as California's climate disclosure law for companies and mandatory board diversity requirements, though the latter faced court setbacks). In summary, while the U.S. lacks the unified regulatory force of the EU on ESG, private-sector and subnational activities are significant, and the debate itself signifies the prominence ESG has attained in corporate America.

Emerging markets present a diverse picture but are increasingly embracing ESG as well. In some cases, emerging economies have taken innovative or early steps: South Africa was a pioneer in requiring integrated reporting (combining financial and sustainability information) for listed companies. Following the King III Code of Governance in 2009, the Johannesburg Stock Exchange mandated integrated reports on an "apply or explain" basis from 2010 onwards (KPMG, 2013). This effectively made South African companies among the first in the world to include sustainability in core annual reports, driven by a governance code linking corporate responsibility to listing requirements. Other emerging market regulators have similarly pushed ESG disclosure. India, for example, introduced mandatory corporate social responsibility (CSR) spending in 2013 (requiring large companies to spend 2% of profits on social initiatives) and in 2021 revamped its disclosure framework by launching the Business Responsibility and Sustainability Report (BRSR). From fiscal year 2023, the top 1000 listed Indian companies are now obligated to publish annual BRSR reports detailing their ESG performance (EY, 2023). This marked a significant expansion from earlier voluntary guidelines, signaling that Indian authorities view ESG transparency as essential for protecting the environment and ensuring equitable growth. China has also gradually moved on ESG: in 2018, the China Securities Regulatory Commission updated its Corporate Governance Code to add environmental and social responsibilities for listed firms. Chinese companies and investors historically lagged Western peers in ESG reporting and assurance, but the concept of "green development" is strongly promoted by the government, and domestic ESG reporting is rising. Studies note that China's ESG disclosure and assurance rates remain lower than in Europe or North America, partly due to later start and different market pressures (Zimon et al., 2024). Nonetheless, the direction is clear - Chinese regulators and exchanges have begun encouraging or requiring ESG disclosures (for instance, the Shanghai and Shenzhen Stock Exchanges recommend listed companies report on ESG, and Hong Kong's exchange mandates ESG reporting on a comply-or-explain basis).

In other emerging regions, stock exchanges and regulators have issued ESG guidelines. Brazil, as Latin America's largest market, is now moving toward mandatory sustainability reporting. In October 2023, Brazil's securities regulator (CVM) and Ministry of Finance announced that from 2026, all public companies must provide annual disclosures on sustainability and climate-related risks. The Brazilian rules will be based on the new International Sustainability Standards Board (ISSB) global standards, aligning with what the UK, EU, and others are adopting. This late but decisive step suggests emerging markets are keen to meet international expectations and attract investment by improving ESG transparency. Brazil's initiative is part of a broader "Ecological Transformation" plan, indicating government strategy to finance green infrastructure and transition the economy (Zimon et al., 2024). Southeast Asian markets have also advanced ESG reporting: for example, Singapore's stock exchange (SGX) introduced a requirement in 2016 that all listed companies publish annual sustainability reports on a comply-or-explain basis (Sustainability-Reports.com, 2024). As of 2023, SGX is tightening this further by mandating climate-related disclosures (TCFD-aligned) for certain industries and moving towards ISSB standards. Malaysia, Thailand, and Indonesia similarly require listed firms to disclose sustainability information, reflecting a regional consensus that ESG factors are material for investment. In Africa outside of South Africa, uptake is slower but growing; Nigeria's stock exchange has ESG reporting guidelines, Kenya has launched a corporate governance code stressing sustainability, and countries like Egypt and Morocco have sustainable development strategies that encourage corporate ESG engagement.

In summary, the literature and documented initiatives show that ESG is a truly global phenomenon, though the stage and emphasis can vary by locale. Developed economies are formalizing ESG in law and corporate governance norms, while emerging economies are often rapidly catching up, sometimes leapfrogging with mandatory requirements as seen in India's BRSR and Brazil's planned ISSB-based rules. International organizations such as the OECD, United Nations, and World Bank have published extensive guidance on ESG integration, and multi-lateral efforts like the G20 Sustainable Finance Working Group promote cross-border alignment (OECD, 2024). As ESG practices diffuse, they reinforce the shift away from a singular focus on short-term profit. Companies operating across borders increasingly must adhere to the highest standard among the jurisdictions (for instance, a multinational listed in New York and London might effectively follow EU-level ESG disclosure for consistency). This creates a rising tide effect, embedding ESG into the fabric of corporate purpose and strategy.

Corporate Governance and ESG Integration

One crucial area of focus in literature is how corporate governance structures are evolving to support ESG goals. Effective governance is the mechanism by which firms can ensure that environmental and social considerations are actually embedded in decision-making rather than remaining perfunctory. Researchers have documented several governance trends as part of ESG integration:

- **Board Oversight of ESG:** Boards of directors are increasingly expected to oversee ESG strategy and risk. Many large companies have created dedicated board committees for sustainability or corporate responsibility, tasked with advising on and monitoring environmental and social performance. For example, by 2022, numerous S&P 500 companies had either a standalone sustainability committee or expanded an existing committee's charter to include ESG matters. This reflects recognition that ESG issues, like climate risks or workplace culture, are material to long-term success and thus warrant board-level attention. The revised OECD Principles (2023) explicitly encourage boards to consider sustainability and resilience, and some jurisdictions (like the UK and certain EU countries) now have codes or guidelines stating that board duties include understanding and guiding the company's impact on society and the environment (OECD, 2023b).
- **Executive Compensation Linked to ESG:** Tying management incentives to ESG performance is another governance innovation. The logic is that if CEO and executive bonuses or stock awards depend partly on achieving sustainability targets (such as emissions reductions, diversity goals, safety records, etc.), then ESG becomes a priority ingrained in corporate culture. A recent global study by KPMG found that 78% of large companies worldwide incorporate sustainability criteria into senior executive compensation plans. European firms lead in this practice (on average 81% of EU-based companies link pay to sustainability goals), whereas U.S. companies lag (only 44% do so, according to the study). Common ESG metrics used in incentive plans include climate-related indicators (e.g., greenhouse gas emission reductions, energy efficiency improvements) and human capital metrics (e.g., employee engagement scores, diversity ratios, health and safety incident rates). The widespread adoption of ESG pay metrics - nearly doubling among S&P 500 firms from 2020 to 2023, where about 76% now use them - underscores the perceived importance of aligning management's interests with long-term sustainable value drivers (Rose and Sharfman, 2024, Meridian Compensation Partners, 2024). From a governance research perspective, this trend also raises questions about how to set appropriate, material ESG targets and avoid superficial metrics; it appears that European companies tend to choose targets more closely aligned with their material ESG issues than some U.S. firms, which sometimes opt for easily achievable or short-term targets (OECD, 2023b).
- **Diversity and Inclusion in Governance:** The Social dimension of ESG is prompting changes in the composition of governing bodies, under the premise that diverse leadership can improve decision quality and reflect broader stakeholder perspectives. One prominent example is the push for gender diversity on corporate boards. Several countries implemented quotas or targets for female representation on boards over the past decade (e.g., Norway's 40% quota, France's 40% quota, etc.). At the EU level, a new directive on gender balance in boardrooms was passed in 2022, requiring that by mid-2026 all publicly listed companies in EU member states have at least *40% women among non-executive directors* (or 33% of all board members). This "Women on Boards" directive seeks to "shatter the glass ceiling" in corporate leadership and is

expected to significantly raise female representation across Europe (AtlasZero, 2024). Beyond gender, there is increasing attention on other aspects of diversity such as ethnicity, age, and background, though regulatory approaches there differ by country (some jurisdictions encourage disclosure of board diversity characteristics without hard quotas). In the US, Nasdaq gained approval in 2021 for a rule requiring listed companies to either have at least two diverse directors (one woman and one from an underrepresented minority or LGBTQ+) or explain why they do not - a comply-or-explain approach to spur diversity. Although legal challenges are ongoing, many companies have proactively added diverse directors. Diverse boards are considered a part of good ESG governance because they can better identify risks and opportunities relating to different stakeholder groups and avoid group thinking. Academic studies have found correlations between board diversity and outcomes like innovation, improved oversight, and even financial performance, which supports the governance case for inclusion.

- **Transparency and Accountability Mechanisms:** Good governance under ESG also entails robust transparency (accurate, comparable disclosure of ESG matters) and accountability (mechanisms to hold management accountable for ESG commitments). One emergent practice is the use of ESG assurance and audits. Just as financial statements are audited, companies are increasingly seeking third-party assurance of their ESG or sustainability reports to enhance credibility and trust. While still voluntary in most places, the rates of ESG assurance are rising - e.g., nearly half of large global companies now obtain some level of external assurance on their sustainability data. Europe again leads (France and Spain have over 75% of companies assured; the US around 70% of large companies assured some ESG data) whereas emerging markets like China are much lower (only ~2.6% of Chinese listed companies obtained ESG assurance in 2021). As regulatory disclosure mandates increase, it is likely that assurance requirements will follow to ensure data quality (the EU's CSRD will actually require limited assurance on sustainability reports initially, moving to reasonable assurance over time). Additionally, many firms are establishing whistleblower systems and stakeholder grievance mechanisms as part of governance, especially in light of new regulations like the EU's Whistleblower Protection Directive and the aforementioned due diligence laws requiring complaint processes (Zimon et al., 2024). These allow issues (fraud, unethical practices, human rights abuses in supply chain, etc.) to be raised and addressed internally before they become crises, reinforcing accountability.
- **Investor Stewardship and Engagement:** Another aspect of bridging governance and ESG is the role of shareholders themselves in pushing for change. Large institutional investors have formed coalitions (such as Climate Action 100+) to demand better climate governance from the boards of major emitters. Proxy voting on ESG-related shareholder proposals has surged - in the U.S., record numbers of environmental and social proposals have gained majority support in recent years, indicating shareholders' expectations on issues like climate reporting, workforce diversity, and political lobbying transparency. This trend is effectively an external

governance pressure: investors are exercising their governance rights to enforce ESG considerations. Many countries now have investor stewardship codes that encourage or require institutional investors to consider sustainability and engage with companies on long-term value issues. For instance, Japan's Stewardship Code was revised to emphasize sustainability, and the UK Stewardship Code 2020 similarly expects signatories to integrate ESG into their stewardship activities. The rise of stewardship reflects a reevaluation of fiduciary duty - where once it was interpreted as simply maximizing short-term returns, it is increasingly seen as requiring the management of long-term risks including ESG risks.

The literature thus paints a picture of corporate governance undergoing reform in tandem with the ESG movement. These governance changes are crucial enablers for the broader shifts in corporate behavior documented in the Environmental and Social areas, because they institutionalize the oversight, incentives, and accountability needed to sustain ESG commitments. Governance is, in a sense, the "glue" that holds the E and S pillars into the corporate purpose. Without governance support, ESG efforts may remain superficial or siloed. With governance alignment, companies are more likely to truly integrate ESG into strategy - changing how decisions are made at every level, from capital investments (e.g., considering carbon pricing scenarios) to supply chain management (e.g., enforcing labor standards) to marketing (avoiding deceptive greenwashing). In short, evolving governance standards reflect the transformation from a pure shareholder model to a stakeholder model of the firm.

Results

In this section, we present the findings of our research, organized around the three pillars of ESG while integrating cross-cutting themes such as stakeholder orientation, strategic integration, and regulatory developments. Each subsection discusses how that pillar is driving changes in corporate behavior and policy thinking, and highlights examples from both developed and emerging markets. Collectively, the results illustrate a broad movement away from short-term profit maximization toward long-term sustainability and stakeholder value creation.

1. Environmental Pillar: Integrating Planetary Boundaries into Business Strategy and Policy

The Environmental pillar has arguably been the most prominent catalyst for rethinking the traditional $MR = MC$ model. Faced with intensifying climate change, resource constraints, and public demand for ecological stewardship, companies and governments are increasingly accounting for environmental costs that were once treated as externalities. This internalization of environmental considerations marks a departure from the classical profit-maximizing behavior where firms would equate marginal revenue with private marginal cost, ignoring social or environmental costs. Now, many firms voluntarily (or under regulatory compulsion) factor in a "shadow price" for carbon emissions, pollution, or resource use, effectively raising the marginal cost of certain activities and thereby

reducing output or altering processes from the level that would be privately optimal in the absence of ESG concerns.

Decarbonization and Climate Action

Climate change mitigation has become a central strategic issue for businesses across sectors. A striking development is the wave of corporate commitments to achieve net-zero greenhouse gas emissions by mid-century or sooner. By 2025, thousands of companies globally have set science-based emissions reduction targets in line with the Paris Agreement's goal of limiting warming to 1.5°C. According to the Science-Based Targets initiative (SBTi), as of Q2 2025 over 10,900 companies worldwide have either established near-term and net-zero emissions targets or pledged to set them. This represents a more than threefold increase since 2023. Notably, this surge spans regions - while Europe and Japan led early on, recent growth in climate commitments has been fastest in Asia (particularly China, which saw the number of companies with targets jump from 137 to 450 in about 18 months) and Latin America. Even though the United States did not rank among the top countries for increase in number of companies with targets in that period, many major U.S. corporations (especially in tech, finance, and consumer goods) have announced their own net-zero goals, often aiming for 2040 or 2050 (ESG Dive, 2025).

This trend signifies a transformation in business thinking: companies are planning investment and production with a long-term horizon that extends beyond immediate profit, recognizing that unchecked carbon emissions pose risks to their future operations and to society at large. For example, an energy company targeting net-zero may decide not to exploit certain marginal oil reserves (even if demand exists) because the environmental cost and future regulatory liabilities outweigh the short-term revenue - a clear instance where $MR \neq MC$ in practice due to ESG factors. Firms are also innovating in products and services (like electric vehicles, renewable energy technology, plant-based proteins) to capture opportunities in the transition to a low-carbon economy.

Importantly, this corporate climate action is reinforced by policy shifts globally. The European Union's Emissions Trading Scheme (ETS) puts a price on carbon for power plants and industry, effectively modifying the cost curve for carbon-intensive production. The EU has also introduced a Carbon Border Adjustment Mechanism (CBAM) to levy fees on imports from jurisdictions with lax carbon policies, pushing multinational companies to reduce supply-chain emissions. Many countries (over 60 as of 2025) have implemented carbon pricing or taxes. Additionally, climate-related financial disclosure is becoming mandatory in several jurisdictions: for instance, the UK and New Zealand now require TCFD-aligned climate risk disclosure for large companies and financial institutions. These regulatory measures force companies to integrate climate risk into decision-making - treating it akin to a financial risk - thus aligning private decision metrics with societal costs. Even in markets without formal carbon pricing, companies anticipate future regulations or are subject to investor scrutiny via initiatives like Climate Action 100+, prompting them to adopt internal carbon prices or emission caps.

From a stakeholder perspective, investors and customers are driving environmental accountability. The growth of sustainable investing means companies with poor environmental practices may face higher capital costs or divestment. Consumers, especially in younger generations, often favor environmentally responsible brands, affecting market share. Together, these pressures create economic incentives for environmental action that did not exist a decade or two ago. A tangible outcome is that by the end of 2023, companies representing 39% of global stock market capitalization had set or committed to science-based climate targets (Georgia Institute of Technology, 2024), indicating that nearly half of the world's corporate value is now tied to emissions reduction trajectories.

Resource Efficiency and Circular Economy

Beyond climate, companies are also reconsidering how marginal cost is calculated in terms of resource inputs. Traditional production models assumed unlimited resource availability and inexpensive waste disposal. ESG, however, highlights that resources like water, minerals, and forests are finite and that waste (plastic, toxic materials) imposes cleanup costs on society. As a result, many firms have adopted circular economy principles - designing products for durability, reuse, and recyclability - and improved resource efficiency to both cut costs and reduce environmental impact. For example, manufacturing companies implement closed-loop processes where industrial by-products are repurposed rather than treated as waste. This can increase short-term costs (investing in new equipment or material sourcing) but results in long-term savings and reduced regulatory/environmental risk. In mining and heavy industries, ESG concerns have led to more prudent project evaluations: mining companies now may leave certain high-impact deposits unexplored or invest in rehabilitation of sites, acknowledging environmental restoration obligations as part of project cost.

Biodiversity and Natural Capital

There is also a nascent but growing focus on biodiversity and ecosystem services as business considerations. Initiatives like the Taskforce on Nature-related Financial Disclosures (TNFD) are developing frameworks for companies to assess and disclose their impacts and dependencies on nature. This responds to scientific consensus that biodiversity loss is a systemic risk. Some forward-looking companies in sectors like agriculture, food, and apparel are taking steps to ensure sustainable sourcing (e.g., deforestation-free supply chains for palm oil, beef, timber) even if it means narrowing supplier options or paying premium prices. Regulators are supporting this; the EU's new deforestation regulation (2023) will ban imports of commodities linked to deforestation, effectively forcing companies to bear the compliance costs for environmentally sustainable sourcing. Such policies internalize what was previously an external environmental cost (forest loss and carbon emissions) into the firm's cost of goods sold.

Clean Technology and Innovation

Environmental challenges have simultaneously spurred innovation and new profit opportunities that align doing well with doing good. Companies investing in clean technologies - renewable energy, energy storage, electric vehicles, green hydrogen, carbon capture, etc. - often justify these on strategic ESG grounds and as growth markets of the future. Automakers, for instance, are phasing out internal combustion engine models and pouring R&D into electric drivetrains, effectively obsoleting some existing profitable product lines to ensure long-term alignment with climate goals and regulatory trends (several countries and states have set future bans on gasoline car sales). Utilities are shifting capital from coal plants (even retiring still-useful plants early) to renewables due to climate commitments and stakeholder pressure. These shifts would be irrational under a short-term $MR = MC$ profit lens but make sense under an ESG-informed, long-term value lens where the “marginal cost” includes societal impact and the “marginal revenue” includes intangible benefits like brand reputation and lower future liabilities.

Global Comparisons

In developed markets, especially Europe, environmental sustainability has become deeply embedded through both regulation and market norms. Europe’s “Green Deal” aims for climate neutrality by 2050 and includes sweeping policy packages affecting every industry - essentially rewriting the economic rules to favor sustainability. The United States, while lacking federal climate legislation, has seen significant investment in clean tech through initiatives like the Inflation Reduction Act (2022) which provides massive subsidies for renewable energy, EVs, and decarbonization technologies. This industrial policy approach incentivizes companies to go green by altering cost structures (e.g., tax credits that reduce the effective cost of clean investments). Emerging markets face a different context: they often have pressing development needs and fewer financial resources for green investment, yet many are highly vulnerable to climate change and pollution. Encouragingly, emerging economies like China and India are among the world’s leaders in renewable energy deployment (China is the largest solar and wind producer; India has a target for 50% electricity from renewables by 2030). These countries leverage green industries as economic opportunities even as they balance growth and environment. Small developing countries are also innovating; for example, Costa Rica runs almost entirely on renewables and pursues ecosystem service payments to protect forests, and several African nations are adopting off-grid solar solutions at scale. The challenge remains that some emerging market firms might still engage in environmentally harmful practices (e.g., commodity-driven deforestation in parts of Southeast Asia and South America, or reliance on coal in Asia and Africa for energy) if governance and incentives are weak. However, international supply chain pressure (such as EU import rules) and development finance conditions are increasingly nudging emerging market companies to improve environmental performance. We observe, for instance, that many large companies in emerging markets now issue sustainability reports and obtain

international certifications (like ISO 14001 for environmental management or FSC certification for forestry) to meet global investors and buyers' expectations.

In summary, the Environmental pillar's influence is evident in how businesses now plan and operate under a new paradigm: one that recognizes ecological limits and integrates them into economic calculations. The widespread adoption of climate targets, internal carbon pricing, sustainability reporting, and eco-innovation all signify that "business as usual" has changed. Profit maximization is no longer about any profit at the expense of the environment; rather, it's about achieving profits in a way that is consistent with maintaining the natural capital on which the economy depends. The transformation is still ongoing and not without friction - as seen in political pushbacks in some quarters - but the momentum suggests that environmentally myopic strategies are increasingly untenable. The MR = MC rule of thumb is giving way to a more complex optimization that includes curbing negative environmental externalities for the sake of long-term viability.

2. Social Pillar: Elevating Human Capital and Equity in Corporate Decision-Making

The Social pillar of ESG encompasses a broad range of issues related to how businesses impact employees, communities, consumers, and society at large. Traditionally, many of these social considerations were seen as philanthropic or peripheral to core business. However, the rise of ESG has moved social issues into the strategic and operational core of companies. This reflects growing evidence that treating employees and communities well is not just "nice to have," but can reduce risks and drive performance (through higher productivity, customer loyalty, etc.), as well as strong stakeholder expectations that companies contribute positively to societal challenges. Thus, firms are increasingly willing to incur additional marginal costs - for improved labor conditions, community investments, customer protections - beyond what pure profit maximization might dictate, because these efforts are aligned with long-term value and stakeholder relationships.

Human Capital Management

One of the clearest shifts is the emphasis on employees as critical stakeholders - often termed "*human capital*" in corporate reports. Companies are paying more attention to worker health and safety, training and development, engagement, and satisfaction. In manufacturing, mining, and other high-risk industries, ESG standards have driven improvements in safety practices, reducing accident rates (which in turn avoids costly disruptions and liabilities). Many firms now report metrics like employee turnover, training hours, or engagement scores as key performance indicators, signaling that they value human capital retention and growth. This focus is partly a response to evidence that companies with satisfied and empowered employees tend to be more innovative and productive. It also arises from social expectations: for instance, after high-profile industrial accidents (like factory fires or collapses in the apparel supply chain), brands have been pushed to ensure safe working conditions even deep in their subcontractor networks. In effect, what might superficially appear as added cost (e.g., funding safety upgrades at

supplier factories, or paying higher wages to reduce turnover) can lead to long-term benefits and risk mitigation. The COVID-19 pandemic further underscored the importance of human capital, as companies that protected employees' health and well-being arguably recovered faster and preserved trust.

A notable trend is improving job quality even where not mandated by law. For example, some large retailers and tech companies have voluntarily raised minimum wages or offered more flexible working arrangements, citing social responsibility and the desire to be employers of choice. These moves often go beyond the MR = MC mindset (which might favor paying the lowest wage the market allows), indicating a shift in priorities. Investors too are scrutinizing human capital: the Human Capital Management Coalition, a group of institutional investors, has advocated for better disclosure of workforce practices, believing they are material to performance. The U.S. SEC recently (2020) amended regulations to require companies to describe their human capital resources and objectives, an implicit recognition that human capital is a critical asset.

Diversity, Equity, and Inclusion (DEI)

Social justice movements and changing demographics have propelled diversity and inclusion to the forefront of corporate agendas. Many companies have set targets for increasing representation of underrepresented groups in their workforce and leadership. As noted in the Governance section, there are also mandates or pressures for diversity at the board level. But more broadly, firms see DEI as vital for innovation, talent attraction, and market connection. A homogenous team might miss opportunities or make missteps in serving diverse customer bases. From the ESG perspective, fostering DEI is both the right thing to do ethically and linked to business outcomes. Studies have found correlations between diverse teams and higher creativity and problem-solving capacity, which suggests a business case.

In response, companies are devoting resources to DEI training, mentorship programs, and equitable hiring/promotion practices. Some have implemented pay equity analyses to identify and close gender or racial pay gaps, absorbing additional compensation costs as needed to ensure fairness. While in earlier times such measures might have been dismissed by executives as beyond the scope of business, now they are often championed at the CEO level and seen as integral to the company's identity and long-term success. For example, after 2020's racial equality protests, hundreds of major companies announced initiatives to combat racism and pledged billions collectively to support Black-owned businesses or communities. These are social investments that don't yield immediate financial return but are aimed at creating a healthier business environment and society (which ultimately benefits business stability).

Supply Chain Responsibility and Human Rights

Globalization has given companies complex supply chains where social risks (like child labor, forced labor, or poor working conditions) often lurk several tiers down. Stakeholder scrutiny - from NGOs, media, and consumers - means that companies are now held

responsible for social conditions not just within their own factories, but also at supplier and subcontractor facilities. This has led to widespread adoption of supplier codes of conduct and auditing regimes. Companies such as major apparel, electronics, and food brands invest significant resources in monitoring suppliers for compliance with labor standards (no underage workers, reasonable working hours, freedom of association, etc.). If a supplier is found violating standards, the company may require improvements or terminate the relationship, even if that supplier offered the lowest cost. Here again, pure MR=MC logic (choosing the cheapest supplier) is overridden by ESG considerations (preferring a more ethical supplier, potentially at higher cost). Some firms have established long-term partnerships with suppliers to improve conditions, reflecting a move from transactional to relational supply chain management with shared sustainability goals.

Legislation is increasingly reinforcing these expectations. For instance, the UK's Modern Slavery Act (2015) and Australia's similar act require large companies to report on steps taken to ensure their supply chains are free of forced labor. The EU's Corporate Sustainability Due Diligence Directive (2024) goes further - it will oblige large companies to identify and prevent human rights (and environmental) abuses in their entire "chain of activities". This effectively mandates robust supply chain oversight as a legal duty, not just a voluntary CSR effort. Non-compliance could lead to significant fines (up to at least 5% of a company's annual turnover) and civil liability for harm. The implication is clear: companies must integrate human rights due diligence into their risk management systems and even their corporate governance (board and policies) must account for these social issues (Reed Smith LLP, 2024). In practice, this means that the cost of doing business now includes the cost of uplifting social conditions in operations and supply chains - a stark change from decades past when such costs were externalized to society or communities.

Product Responsibility and Customer Well-being

The Social pillar also covers how products and services affect customers and society. ESG thinking encourages companies to ensure their products are safe, accessible, and beneficial. For example, there is heightened attention on data privacy and protection (especially in tech firms, to treat customer data responsibly), on health impacts (for food and beverage companies to address nutritional content, or for pharma companies to ensure access to medicines), and on not misleading consumers (truthful marketing). Some companies have proactively pulled harmful products or changed formulas in response to health concerns even without regulatory mandates, illustrating a precautionary, stakeholder-centric approach. The rise of the concept of "social license to operate" means that companies in sectors like mining, energy, and infrastructure often engage extensively with local communities to gain acceptance for projects, sometimes redesigning projects or providing community benefits (like schools, clinics, or revenue-sharing) that are above and beyond what profit calculations alone would dictate. Without such measures, they risk protests or permit denials - so again, stakeholder management becomes part of the cost of doing business.

Community Engagement and Development

Companies are increasingly involved in community development as part of their ESG strategy. This includes both philanthropic activities (charitable donations, volunteering) and more integrated shared-value initiatives (for instance, a retail chain supporting small local suppliers, or a utility company investing in local education to build a skilled workforce). In emerging markets, businesses often step in to provide social infrastructure or services that may be lacking, which can boost their reputation and foster stable operating environments. India's mandatory CSR spending law is a unique case: large firms must spend 2% of net profits on CSR activities, effectively embedding community investment into corporate financial planning. While compliance has varied, many companies have ramped up education, healthcare, and livelihoods programs as a result, directly contributing to social development in ways previously left to government or NGOs.

Global Perspective on Social Issues

Developed market companies typically have more resources and stakeholder pressure to address social issues, but emerging market companies are catching up and sometimes innovating out of necessity. For instance, microfinance originated in emerging contexts to address social inclusion in finance; now many mainstream banks incorporate financial inclusion in ESG goals. In regions like sub-Saharan Africa, telecom companies have spearheaded mobile banking (bringing financial services to the unbanked) which, while profitable, is also a socially transformative service. In terms of labor practices, emerging market factories that supply multinationals have seen improvements due to ESG audits, though challenges remain, especially among subcontractors and in informal sectors. A concern is that small local businesses may find ESG compliance costly, but large multinational companies often provide training and support to help them meet standards, effectively diffusing better practices.

Social priorities can also differ in some emerging countries, providing basic fair wages and job opportunities might be the focus, whereas in developed countries, more attention goes to diversity, mental health, or work-life balance. However, globalization and international standards (like the UN Guiding Principles on Business and Human Rights) are harmonizing expectations. Initiatives such as the Sustainable Development Goals (SDGs) have rallied companies worldwide around common social objectives (no poverty, quality education, gender equality, etc.), leading to corporate SDG-aligned programs. More companies now publish how their operations align with specific SDGs, thereby framing business growth in terms of social impact.

In essence, the social pillar has expanded the definition of corporate performance to include stakeholder well-being. A company's "marginal cost" in ESG terms might include paying a premium for ethically sourced materials or providing extra benefits to employees; its "marginal revenue" might include the goodwill earned from customers and communities or the avoided costs of social conflicts. These are not easily quantifiable in classical models, but companies are learning to justify and measure them through

concepts like employee lifetime value, brand equity, and social risk assessment. The shift can be summarized as moving from treating labor and social expenditures as a minimizable cost to treating them as an investment in resilience and brand. The transformation is still uneven - not all firms practice high social standards, and there are frequent exposés of poor conditions, which in turn fuel the ESG movement. But overall, corporate norms have shifted significantly from a few decades ago, when, for example, sweatshop labor scandals were initially met with denial or indifference; today, they are met with swift stakeholder backlash and demands for corrective action. Social sustainability has thus become a key element of both corporate strategy and public policy (with governments enacting laws to hold companies accountable for social impacts, as seen in due diligence directives and labor regulations), further indicating that profit at the expense of people is an outdated and unacceptable business model.

3. Governance Pillar: Redefining Corporate Purpose and Accountability

The Governance pillar of ESG underpins the effective realization of environmental and social objectives by ensuring that a company's leadership, structures, and processes are aligned with responsible business conduct. If environmental and social priorities represent what goals companies pursue beyond profit, governance represents how companies are directed and controlled in pursuit of those broader goals. The transformation in governance thinking is evident in a shift from a narrow conception of fiduciary duty - historically interpreted as maximizing shareholder returns - to a more enlightened fiduciary duty that considers the interests of stakeholders and the long-term sustainability of the enterprise (Mhlanga and Moloi, 2022). This section highlights key governance developments that illustrate ESG's impact on corporate and policy thinking.

Board Responsibility for Sustainability

Traditionally, boards of directors focus on financial performance, compliance, and strategy from a shareholder perspective. Today, there is growing acceptance that boards must also ensure the company's sustainability and ethical impact. For instance, the revised G20/OECD Principles of Corporate Governance (2023) include, for the first time, an entire chapter on sustainability, emphasizing that boards should consider climate change and other sustainability risks as part of their oversight duties (OECD, 2023b), (ESG Dive, 2025). About half of jurisdictions worldwide now have explicit provisions or recommendations that boards are responsible for sustainability policies (OECD, 2023a). Practically, this means boards are asking management tougher questions about ESG: How is the company adapting to a low-carbon economy? What are we doing to promote diversity and prevent workplace misconduct? What is our exposure to human rights risk? Board committees for audit or risk are also broadening their charters to include ESG risk integration, or separate committees (as mentioned earlier) are formed to concentrate on these areas.

Leading companies embed ESG in governance through mechanisms like board skills matrices that include sustainability expertise, or by appointing directors with backgrounds

in environmental science, human rights, or other relevant fields. Some have even amended corporate bylaws or mission statements to codify a multi-stakeholder purpose. A prominent example is the UK's Section 172 of the Companies Act, which since 2006 legally requires directors to have regard for employees, suppliers, community, environment, and long-term consequences in their decisions (not just shareholders). This kind of statute, while difficult to enforce directly, formally expands directors' fiduciary remit to ESG matters. Benefit corporation statutes in the U.S. likewise allow companies to register as for-profit entities with a social purpose, altering governance duties to include societal impact.

Anti-Corruption and Ethics

Good governance in ESG also involves maintaining high ethical standards and robust anti-corruption measures. Corruption and fraud are seen as antithetical to sustainable development because they undermine trust and equitable resource allocation. Hence, ESG-minded investors and regulators expect companies to have stringent compliance systems, transparent reporting, and a culture of integrity. Many emerging markets have improved corporate governance codes to address issues like bribery, political lobbying transparency, and whistleblower protection. For example, companies are enhancing their whistleblower programs (often under board audit committee oversight) to encourage reporting of misconduct internally rather than having it fester or go public. Moreover, governance reforms globally have aimed to empower independent directors and audit committees to provide checks and balances on management - crucial for preventing governance failures like financial frauds or cover-ups of social/environmental harm. The ESG lens puts additional weight on such safeguards, because a governance failure in, say, falsifying emissions data (as seen in the Volkswagen Dieselgate scandal) is not only a legal violation but a severe breach of stakeholder trust.

Transparency and Integrated Reporting

We have discussed sustainability reporting under the environmental and social sections, but it is fundamentally a governance practice as well-being transparent with stakeholders is a facet of accountable governance. There is a push towards integrated reporting, where companies provide a holistic view of financial and non-financial performance together. As noted earlier, South Africa led in requiring integrated reports (KPMG,2013), and now the idea is spreading. The International Integrated Reporting Council (IIRC) framework, now consolidated into the IFRS Foundation's work with the ISSB, encourages companies to explain how they create value in terms of not just financial capital, but also manufactured, intellectual, human, social, and natural capitals. This multidimensional view requires governance oversight to ensure the accuracy of ESG data akin to financial data. The prevalence of external assurance for ESG metrics, still in growth, is expected to be a norm in coming years, meaning boards and audit committees must treat ESG disclosures with similar rigor to financial statements (Zimon et al.,2024).

Shareholder Rights and Stakeholder Engagement

Governance reforms have also involved recalibrating the role of shareholders in corporate oversight and the role of stakeholders in corporate governance. On one hand, large shareholders (like institutional investors) are using their governance rights to press for ESG outcomes (through proxy voting, as mentioned). On the other hand, some jurisdictions formally introduce stakeholder voices into governance. For instance, Germany's codetermination system has long had employee representatives on boards. While not a new concept, the value of employee voice is being reappreciated as part of ESG (employees can flag issues and contribute diverse perspectives). In Japan, recent governance reforms highlight respect for employees and customers as part of corporate value, indicating a shift from a pure shareholder model. Some companies are setting up stakeholder councils or advisory panels (for community leaders, customers, etc.) that meet with senior management or the board to provide input, although this is still relatively rare and experimental.

Executive Accountability and Long-termism

Another governance aspect influenced by ESG is the alignment of executive decision-making with long-term company health. Historically, executive pay heavily tied to short-term stock prices could incentivize actions that boost immediate profit at the expense of longer-term stability (e.g., cutting maintenance or R&D). ESG's rise coincides with a questioning of such short-term incentives. By incorporating long-term ESG metrics in pay (as discussed with the 78% linking compensation to sustainability), companies are adjusting governance levers to favor sustainable performance (ESG Today, 2024b). There's also a trend for extending performance measurement periods for incentive plans (e.g., three-to-five-year targets including sustainability outcomes, rather than just one-year financial targets). Some investors advocate for structures like loyalty shares or tenured voting to reward long-term shareholding and counterbalance transient investors - a controversial idea, but part of a broader discussion on fostering long-term governance perspectives.

Regulatory and Code Revisions

In terms of policy, many national corporate governance codes have been updated to incorporate ESG concepts. For example, Malaysia's Corporate Governance Code (2021 revision) added emphasis on sustainability; Singapore's (2018) explicitly calls for boards to consider sustainability issues as part of strategic formulation; Brazil's IBGC code encourages boards to integrate ESG into strategy. The G20/OECD Principles of Corporate Governance 2023 now make numerous references to sustainability, from disclosure to board responsibility (OECD, 2023b), reflecting a consensus among major economies on the importance of ESG in governance. These soft law instruments often preceded or accompany hard law changes. As mentioned, the EU is also directing governance through specific laws - not only the due diligence directive but also the "Women on Boards" Directive which will effectively require changes in board composition

by 2026, and the CSRD which will require formal board approval of sustainability reports and possibly a director duty to report accurate non-financial info (Atlas Zero, 2024).

Additionally, stock exchanges are playing a role: many now have ESG listing guidelines or requirements. For instance, Hong Kong's stock exchange mandates that listed companies have board statements on ESG matters and disclose the board's governance of ESG issues. Brazil's B3 exchange is introducing an ESG reporting annex in its listing rules by 2025 requiring companies to either publish ESG info or explain why not, which indirectly forces boards to pay attention. These moves tie corporate governance directly to ESG outcomes.

Stakeholder Capitalism Metrics

The World Economic Forum's International Business Council developed a set of "Stakeholder Capitalism Metrics" for companies to report (covering governance, planet, people, prosperity). Over 50 global companies have reportedly started including these metrics in their mainstream reporting by 2021 (World Economic Forum, 2021). While voluntary, it's interesting that CEOs collectively agree to measure themselves on things like ethics and anti-corruption, protection of human rights, community investment, and other governance-related metrics. It signals a peer expectation that good governance means more than traditional compliance - it means proactively governing stakeholders. Some of these metrics include, for example, the setting of purpose and values at the board level, quality of governing body, degree of stakeholder engagement, and ethical behavior indices (World Economic Forum, 2022). Companies adopting these are effectively committing to benchmark governance in stakeholder terms, which is a notable pivot from equating governance purely with serving shareholders.

Challenges and Ongoing Evolution

Despite these advances, aligning governance with ESG is a work in progress. One tension is that legal frameworks in many countries still formally prioritize shareholders - directors can be sued by shareholders for underperformance more readily than they can for, say, failing to meet an environmental target (unless it clearly damages the company's value). There is an ongoing debate whether company laws should be revised to explicitly integrate stakeholder interests (so-called constituency statutes or pluralistic purpose statements). The Business Roundtable's statement, while groundbreaking in rhetoric, does not have force of law and has been met with skepticism by some who doubt whether it will materially change how boards operate when facing trade-offs (Mhlanga and Moloi, 2022). Indeed, a critical view by some academics (e.g., Bebchuk and Tallarita, 2020) argues that "stakeholder governance" may be illusory without legal changes, as current governance incentives still tie mostly to shareholder metrics. Others counter that investor attitudes have evolved so much that catering to shareholders now means addressing ESG, since most large shareholders themselves demand it (Friede et al., 2015).

However, it's evident that at least in public discourse and increasingly in practice, the governance paradigm is broadening. The fact that shareholder proposals on

environmental and social issues have reached record support levels (over 50% on some resolutions in 2021–2022) demonstrates shareholders themselves pushing governance to consider ESG (Sustainability, 2023). And where shareholders push, boards usually listen. In jurisdictions with concentrated ownership or state-owned enterprises (common in emerging markets), controlling shareholders (including states) are also at times pushing ESG - for example, some sovereign wealth funds invest only if companies meet governance and ESG criteria; and government owners often require their companies to follow sustainability mandates as part of national strategy.

In conclusion, the Governance pillar is perhaps the linchpin of ESG integration. It translates values and objectives into corporate behavior through policies, incentives, oversight, and culture. The transformation here is subtle but profound: corporate governance is moving from an agency model (agents serving principals' financial interests) towards a stewardship model, where corporate leaders are stewards of a range of capitals (financial, human, natural) on behalf of a range of beneficiaries (shareholders and stakeholders alike) (Nogueira et al., 2023). Such stewardship-minded governance is one where $MR = MC$ is not an end in itself but one input among many in complex decision-making that balances profit with purpose. Companies with strong ESG governance are more likely to successfully implement environmental and social initiatives because their leadership structures reinforce, rather than conflict with, those goals. Meanwhile, policymakers and investors are continuing to refine governance frameworks to ensure accountability for ESG commitments - because promises alone are not enough, they must be backed by governance systems that deliver results and correct courses when needed.

Conclusion

The analysis presented in this paper demonstrates that ESG - Environmental, Social, and Governance considerations - is driving a fundamental transformation in business and policy thinking, effectively rewriting the implicit rules by which companies define success and make decisions. The once-dominant economic principle of profit maximization, encapsulated by the condition $MR = MC$, is no longer an adequate or complete guide in a world where stakeholders demand sustainable and equitable outcomes. " $MR \neq MC$ anymore" is a metaphor for this shift: whereas classical theory would have a firm expand production until marginal revenue equals marginal cost (ignoring externalities), modern corporations are increasingly willing to stop short of that point, or invest beyond it, in order to meet ESG objectives that ensure long-term value for a broad set of stakeholders.

Across the *Environmental* pillar, we found that companies are internalizing environmental costs through voluntary commitments and in response to regulatory regimes. Climate change, in particular, has elevated the importance of long-term risk management over short-term gain. Thousands of firms setting net-zero targets, integrating carbon pricing into decisions, and innovating in clean technologies illustrate a departure from business-as-usual approaches. Environmental stewardship has become intertwined with corporate strategy, supported by government policies like carbon pricing, disclosure mandates, and sustainable finance taxonomies. In developed economies (notably the EU), sustainability

is now a core expectation of corporate conduct, enforced by a web of regulations and market pressures. Emerging markets, while balancing growth needs, are also increasingly part of the global sustainability transition - evidenced by initiatives such as India's mandatory ESG reporting and Brazil's adoption of ISSB standards for disclosure. The net effect is that the environmental externalities that were invisible in financial calculus are being brought into the equation, altering investment, production, and consumption patterns worldwide.

Within the *Social* pillar, corporations have come to recognize human capital and societal relationships as critical assets and sources of risk. The research shows that firms are elevating employee well-being, diversity, equity, and inclusion to strategic priorities, linking them to innovation and performance. Supply chain due diligence on labor and human rights is increasingly standard, backed by new laws that hold companies accountable for social harm in their operations and supply networks. Community engagement and product responsibility have similarly moved from peripheral CSR activities to central elements of corporate reputation management and risk mitigation. There is a clear trend toward stakeholder-centric management: companies are striving to deliver value not just to shareholders, but also to employees (through fair wages and growth opportunities), customers (through safe, quality products), and communities (through investment and ethical practices). In many instances, this involves committing resources and management attention in ways that might not yield immediate profit, but cultivate trust, loyalty, and social license that support sustainable profitability. We also note that stakeholder expectations are higher than ever in the age of social media and global awareness - a misstep on social issues can quickly lead to boycotts, talent attrition, or regulatory crackdowns, giving firms a strong incentive to uphold high social standards.

The *Governance* pillar underlies both environmental and social advancements by reframing corporate purpose and accountability structures. We observed that corporate governance reforms around the world are embedding sustainability into the fabric of oversight and control. Boards of directors are increasingly tasked with ensuring the company's long-term resilience and ethical conduct. Executive compensation tying to ESG metrics, heightened transparency through integrated reporting, and greater board diversity all contribute to aligning the interests of management with those of a wider stakeholder base. Moreover, regulatory and investor-driven changes in governance - such as stewardship codes and the updated G20/OECD Principles - reinforce the notion that good governance today inherently includes managing ESG factors. Corporate governance is, in effect, moving from a narrow agency model to a model of stewardship and stakeholder engagement. This not only helps prevent misconduct and shortsighted decisions, but also proactively guides companies to pursue opportunities in sustainability (for instance, by establishing committees that specifically look at innovation in green products or community investment strategies).

From a global perspective, one of the important findings is convergence amid diversity. While the pace and approach differ by region, there is a discernible convergence towards

common ESG norms. International frameworks (SDGs, Paris Agreement, UN Guiding Principles) and global market forces (multinational supply chains, cross-border investment criteria) are harmonizing expectations for corporate behavior. Developed markets often pioneer strict standards that later influence emerging markets - for example, EU regulations effectively become global benchmarks for multinational companies. At the same time, emerging markets contribute innovations (like India's CSR mandate or Africa's fintech solutions for social inclusion) that enrich the ESG landscape. Stakeholder capitalism as a philosophy has gained adherences in boardrooms from New York to Nairobi, even if the implementation is uneven and sometimes superficial. The momentum suggests that ESG is not a passing fad but a structural evolution of the market system.

That said, our research also highlights challenges and caveats. One challenge is ensuring authenticity and impact - the risk of "greenwashing" or "social washing" is real, where companies may pay lip service to ESG without making substantive changes. This underscores the need for robust governance and verification (hence the importance of assurance and regulatory oversight). The political backlash in some quarters (as seen with anti-ESG sentiments or the halting of the SEC's climate rule) indicates that consensus is not universal; debates continue about the appropriate role of business in addressing societal issues. Some critics argue that pushing ESG too far could conflict with other economic objectives or that it should remain voluntary rather than mandated. Our findings, however, suggest that many elements of ESG are becoming normalized expectations - it is said that investors representing tens of trillions in assets call for ESG disclosure and performance, implying that capital will increasingly flow to companies that embrace sustainability and stakeholder principles.

From a policy standpoint, governments are learning that smart regulation can align private incentives with public goods. The expansion of disclosure requirements, due diligence laws, and sustainable finance standards are policy tools aimed at correcting market failures (like externalities and information asymmetry) without heavy-handed intervention in business operations. Essentially, policymakers are resetting the baseline for what constitutes a well-managed, lawful business in the 21st century. No longer is it sufficient to simply be financially profitable; companies are expected to contribute (or at least not detract from) environmental sustainability and social well-being as part of their regular course of business.

In conclusion, the transformation driven by ESG can be seen as part of a broader historical shift in the role of the corporation. If the 20th century was characterized by the rise of managerial capitalism with an overriding focus on shareholder returns, the 21st century appears to be moving towards stakeholder capitalism, where creating value for society and protecting the planet are intertwined with creating value for shareholders. This does not mean that profit is no longer important - rather, profit is being pursued within constraints and through strategies that ensure the business can sustain itself and its

stakeholder relationships over time. Leading companies increasingly talk about “purpose” alongside profit, suggesting a dual mandate.

For academics and practitioners, this conceptual research underscores several implications. First, performance measurement in companies and economies will have to continue evolving - new metrics and accounting standards (such as those from ISSB or the EU’s CSRD) are vital to capture ESG performance and make it comparable. Second, there are opportunities for innovation in products, services, and business models that inherently solve ESG issues (clean tech, social enterprises, circular economy models, etc.). Third, education and culture within companies need to support the ESG mindset - meaning future business leaders must be trained to think in systems, understand stakeholder engagement, and value interdisciplinary problem-solving.

Finally, future research could explore the long-term outcomes of this shift: Will companies that lead to ESG indeed outperform those that lag, as some studies suggest? How will the balance of power between shareholders, boards, and other stakeholders evolve legally and practically? Can global ESG standards be enforced in a way that respects local contexts yet avoids a “race to the bottom”? And how will small and medium enterprises (SMEs) adapt to ESG expectations, given they have fewer resources than large multinationals but collectively large impact? These questions point to an ongoing journey. What is clear from our comprehensive review is that the integration of ESG into business and policy is not an isolated trend - it reflects in depth the purpose of the firm and the functioning of markets. In the ESG era, the equation for optimal decision-making has expanded: it must balance marginal revenues and costs with the marginal impacts on society and the environment. In other words, tomorrow’s successful businesses are likely to be those that optimize all stakeholders’ prosperity over the long run, proving that doing good and doing well can indeed converge.

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