

18**ESG Integration in Indian Companies:
Strategic Impact, Opportunities, and
Challenges****Dr. Madhu Bala***

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Abstract

Environmental, Social and Corporate Governance (ESG) practices are the framework of sustainability parameters which directs the business towards accountable and responsible behavior to achieve growth. Nowadays, it has been well recognized, and is being emphasized that old system of assessment of investment, based only on financial performance needs to be overhauled. Rather, it has been accepted that the integration of ESG factors into financial indicators is the need of the hour to judge the performance of entity. It is believed that it would also strengthen the exposure of business to global sustainability-related shocks. In fact, this school of thought has played a major role in bringing awareness about the link of sustainability with the financial system. It has grabbed the attention of companies to maintain a balance between financial and non-financial indicators. They are formulating and implementing policies and strategies by incorporating ESG factors. This study is aimed to highlight the impact of ESG practices along with the challenges, and opportunities posed by it. The descriptive model of research has been applied. To put it differently, a qualitative literature-based approach has been embraced to ascertain the impact of ESG practices on businesses, and how are they beneficial and challenging for them. The Findings are indicating that sustainable efforts are changing the ways of doing business, and enhancing profitability, helps in mitigating risk and earning stakeholder trust. Although, it has posed certain challenges, such as, high cost of compliance, lack of standardized reporting framework, shortage of reliable data, dearth of sustainable infrastructure, and probability of reputational risks from ESG failures. However, these are very well manageable in the long-run.

Keywords: Corporate Governance, ESG Framework, Green-washing, Sustainability, Social Responsibility.

Introduction

ESG may be seen as three distinct and important pillars in any organization. Further, each one of them is a function of sub-parameters. The 'E' element includes a company's negative contribution to climate change in various forms, like releasing smoke and chemicals, deforestation, and poor waste management. There are certain industries which make relatively higher impact on the environment, such as, Paper, Mining, and Cigarette Industry. It is assessed on the basis of steps taken by the entity to improve or maintain ecological balance, such as, efforts made to embrace circular economy, efficient use of water and energy, and reduction or making zero carbon emissions by implementing cleaner and greener technologies.

Similarly, the 'S' stands for societal, and workplace behavior of an entity, such as, hiring of diversified workforce, equal opportunities extended, quick grievance redressal system, and projects aiming at community welfare. It focuses on how a company is managing its relationship with employees, suppliers, customers, shareholders; and the community through corporate citizenship and philanthropy. To put it differently, focal point is how the company is giving back to the society. The socially responsible entities participate in initiatives designed to upgrade the socio-economic status, educational levels, and quality of life of underprivileged sections of society.

The 'G' factor ascertains whether the company is abiding rules and regulations, degree of transparency in its actions, and business ethics followed. It talks about the composition, responsibilities, compensation, and degree of independent functioning of Board of Directors; and relations with stakeholders. The risk management systems, and the quality and quantity of corporate disclosures have also come on centre stage of argument.

These three non-financial pillars are taken together for consideration, as they are seen as interlocked or overlapped, e.g. the analysis of cigarette industry demonstrates that it affects environment as well as society. Therefore, the term ESG is representative of collective meticulousness of efforts on social and environmental, and governance dimensions.

The companies are expected to be stewards of environment and society, along with inclusive and sustainable growth, to become financially profitable and successful. They are being pressurized to adopt responsible behavior as they do not operate in vacuum. Their existence depends on society for raw material, work force, customers, and suppliers; and affects life of multiple human beings on globe through their products and services on daily basis. That is why company's sustainable, responsible, and ethical practices are under the lens of stakeholders, who assign higher value to ESG-compliant companies. Their performance or ESG score is compiled from data or disclosures or actions made by them in public domain;

and serves as one of the important parameters for making investment decisions. The corporates are also giving due considerations to these developments.

It has been noticed that the companies which have ignored ESG factors are facing higher risks, and are likely to face challenges in raising capital in near future. So, an increasing number of corporates, especially the bigger ones, are enforcing ESG practices in core business models, understanding ESG challenges, disclosing the related information.

The fund managers are also integrating sustainability in their investment decisions-making process. They focus on annual financial reports along with greenhouse gas emissions, labor practices, engagement processes with stakeholders etc. Therefore, the ESG has occupied an indispensable place in the investors' mind (Amel-Zadeh & Serafeim, 2018). It has led to increase in number of ESG-funds, and the amount of financial resources collected.

As ESG has become the buzzword of the time, the need for its regulation has been felt. The formal regulatory framework on ESG disclosures in India was initiated through the Companies Act, 2013, which required companies to disclose information on "Energy Conservation". The Corporate Social Responsibility rules were forced in 2014. The Securities and Exchange Board of India mandated disclosures in annual reports on "opportunities, threats, risks, and concerns" for listed companies in 2015. Further, it added the "Disclosure Requirements for Issuance and Listing of Green Debt Securities", in 2017. The basic purpose was to boost the confidence of investors, and to garner finance for green projects, such as, solar and wind energy, waste water management, and inculcate the habit of circular economy. In 2021, SEBI initiated voluntarily adoption of Business Responsibility and Sustainability Reporting (BRSR) framework, and the same was made mandatory for top 1000 listed companies from financial year 2022-23. It has emphasized on qualitative and quantitative ESG disclosures. In this way, the regulators have not only mandated large businesses to embed ESG in ways of doing business, but also nudged smaller companies to be more sustainable and profitable.

Although, numerous studies have been directed on different aspects of ESG in the world, but still there is limited research on ESG in developing economies. Therefore, present study has been directed to clearly understand the underlying issues in more detail.

The present study has been elaborated under four main sections. The present one is committed to the introduction of the subject. The Section 2 elaborates on Research Methodology. Then, Section 3 is devoted to detailed discussion on the issue, and the conclusion has been drawn in Section 4.

Research Methodology

- **Objectives of the Study**

The main objective of study is to understand the “ESG” and its importance for businesses to be profitable, valuable, and acceptable to stakeholders. There was a time when only financial performance of entity was of paramount significance for investors to park their surplus money in companies, in the form of loan or capital. But, now the degree of commitment and progress of entity on ESG front is also considered equally important for investment decision making process. Therefore, an effort has been made to figure out that compliance of ESG dimensions have been considered as one of the essential “intangible assets” of corporate, who are incorporating these factors in business models to make broad and speedy strides on success-ladder. They are also facing some challenges which need to be worked upon with passage of time.

- **Research Design**

It is a descriptive study, putting together the viewpoints on the underlying subject. It is based on the qualitative analysis of secondary sources and literature review. This type of design is useful to deliver a clear direction on the key issue by enriching the discussion.

Discussion

The ESG practices have impacted the businesses in different ways. It has changed the way of doing business, and the same has been talked about in sub-section 3.1.

The critical framework of ESG has created various opportunities of long-term business-value creation, and has thrown light in sub-section 3.2. At the same time it has posed significant challenges also in the form of data inconsistencies, regulatory fragmentation, and the high cost of implementation which have been detailed in sub-section 3.3.

Impact of ESG Practices

The ESG practices are impacting businesses significantly, which has been outlined under environmental, social, and governance dimensions in sub-sections from 3.1.1 to 3.1.3.

- **Environmental Impacts**

Environmental impacts pertain to how businesses have reduced or stopped damaging the environment. It has been enumerated as follows:

- **Reduction in Carbon Emissions**

Companies are shifting towards renewable sources of energy, use of energy-efficient equipments and technologies, and adoption of green processes/

products/methods in production. It has resulted in declining greenhouse gas emissions, improved air quality, and a positive step towards climate change mitigation, e.g. Tata Power Limited has ventured in solar energy projects, which have reduced dependence on fossil-fuels based energy.

- **Improved Waste Management**

Businesses are inclining towards circular economy by embracing three R's-reduce, reuse, and recycle waste; which has made efficient and effective utilization of available resources, and condensed the heap of industrial waste, e.g. ITC Limited undertakes “zero waste” policy by adopting sustainable packaging.

- **Water Conservation**

The water-efficient technologies are being used, especially in manufacturing sector. It has reduced scarcity of water, and encouraged the sustainable use of groundwater. The Mahindra Group has mandated and executed water conservation initiatives in several manufacturing units.

- **Investment in Renewable Energy**

Indian firms are more and more investing in clean and green energy, such as, solar, wind, and green hydrogen projects. It has fueled the growth of green energy sectors; limiting the dependency on fossil fuels and supporting the India's net-zero goal by 2070. Adani Green Energy is investing heavily in large-scale solar and wind projects, which has been instrumental in providing “Apana Bijali Ghar” to households by installation of solar panels on roof-tops of the houses.

- **Social Impacts of ESG Practices**

The social factor of ESG draws attention on employees, customers, shareholders, suppliers, and society at large in following different ways:

- **Enhanced Employee Welfare**

The companies are emphasizing the recruitment of diversified workforce with emphasis on inclusive workplaces at all levels of management. The Infosys Limited promotes gender diversity by preferring appointment of women as leaders with re-skilling programs. Similarly, the equal opportunities, fair wages, safety measures, and mental health supports are being extended. It benefits organization in terms of reduced employee turnover; and increased employee satisfaction, productivity, and innovation.

- **Community Development**

The organizations are investing in social welfare programmes. They are now embracing projects to improve education, health, drinking water, sanitation; and rural development. It upgrades living standards, rural empowerment, and social equity. For specified companies, Companies Act, 2013 has mandated to spend at least 2% of profits on such activities.

- **Consumer Trust and Brand Loyalty**

The consumers have a preference for the companies that follow and demonstrate ethical and sustainable behavior. Therefore, they are manufacturing quality products on reasonable prices; which tend to increase brand loyalty, customer base and market share.

- **Governance Impact**

It moves around ethical board of directors, fostering transparent decision-making and accountability with regulatory compliance. It includes following:

- **Increased Corporate Transparency**

Companies have started disclosing sustainability and ESG metrics more openly, which have boosted investor's confidence, reduced information asymmetry, and improved corporate credibility.

- **Stronger Board Accountability and Ethical Behavior**

The companies are now making efforts to have ethical and diversified board rooms, and its functioning through the formation of various committees, like Audit committee, Nomination and Remuneration Committee, and Investors' Grievance committee. The mechanism of whistleblower with improved adherence to rules and regulations has boosted investors' confidence.

Opportunities Created by ESG Framework

The various opportunities or financial and strategic advantages a company gains by strong ESG adoption, have been outlined in sub-sections 3.2.1 to 3.2.2.

- **Economic and Financial Well-being**

The ESG practices have considerably improved financial performance and investment patterns. These non-financial factors have not only brought improvements in business standing, but also assisted in risk mitigation with introduction of voluntary or mandatory BRSR framework. It may be enumerated as follows:

- **Attraction of Foreign Investment**

The global investors, especially, mutual funds and institutional investors have inclined towards companies with strong sustainability ratings; who have attracted enlarged Foreign Direct Investment and institutional investment, and ample access to global capital markets.

- **Better Long-Term Profitability**

Sustainable practices often tend to reduce operational costs, and improve profitability as measured by its various indicators like Return on Assets Return on equity, and return on capital employed (Aydogmuş et al., 2022), and (Yadav, 2025). It has been investigated empirically that the companies who follow ESG practices utilize available resources efficiently; and the profitability and market share have a

tendency to increase due to declining cost of capital. They enjoy better public image, and reduced regulatory issues in terms of fines and penalties (Kotsantonis et al. 2016). Similarly, Ashwin Kumar et al. (2016) found that the lower volatility in stock prices is seen in ESG-conscious companies as compare to their counterparts in the same industry in US.

- **Risk Management**

The ESG practices help companies to identify and manage climate, legal, supply chain and reputational risks, which has lowered litigation cost, and enhanced resilience during crisis. Sassen et al. (2016) witnessed declining idiosyncratic risk in Europe, which has redefined the risk management by aligning with environmental change and ethical behavior of Board.

- **Growth of Green Finance and Indian Capital Markets**

The ESG investing is transforming India's financial ecosystem with material changes, such as, expansion of ESG mutual funds, sustainability indices in stock exchanges, and investor preference for responsible and sustainable businesses. The companies are issuing an increasing number of green bonds for climate-friendly projects, and financial innovations; and banks are granting sustainability-linked loans. The ESG-investment funds and related-information disclosure is on rise. It is indicating the expansion of green financing initiatives, and expanding sustainable financial market.

- **Achievement of Sustainable Development Goals (SDGs)**

The ESG practices have shaped opportunities to align national and United Nations Sustainable Development Goals at global level in different areas, such as, clean energy, responsible consumption, gender equality, climate action, and increased economic growth. It has supported India's climate commitments, and promotion of inclusive growth. The achievement of sustainable development goals (SDGs) is the need of the hour which necessitates concrete and collective efforts by all sectors of society simultaneously. In this regard, the role of business is foremost and crucial to drive the desired or transformative change.

Challenges Faced by Companies in Implementation of ESG Practices

The non-financial factors or ESG practices have become an indispensable function of modern business. Companies across the world, including India, are adopting ESG frameworks to be sustainable, attract investors, avoid legal disputes, and enhance long-term value. However, implementing ESG practices is a tedious process that requires huge financial investment, organizational change, and technological innovation and adaptation. However, these challenges are harsher for small and medium enterprises, developing economies and industries with high environmental impact like Thermal Power Plants, Iron and Steel Plants,

Petrochemicals and Oil Refineries, and Textile Manufacturing and Processing. These have been enlarged in sub-section 3.3.1 to 3.2.8.

- **High Cost of ESG-Compliance**

The effective implementation of ESG requires advanced technology and digital systems, such as, carbon tracking software, AI-based analytics, renewable energy technologies, automated reporting systems, waste management systems, ESG reporting software, and quick grievance redressal systems. It poses a challenge before the organization to strike a balance between profitability and sustainability, especially in the short-run.

- **Lack of Standardized ESG Reporting Frameworks**

The different ESG standards and reporting methods are observed in different countries. The companies differ with regards to ESG framework to follow, ESG indicators to disclose, and measurement of ESG performance. Although, there are some common ESG frameworks like GRI (Global Reporting Initiative), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), and BRSR in India. But, still there is no agreement among all countries to follow any one set of rules. It has posed the challenge of comparing ESG performance among companies, complexity in reporting, e.g. two companies in the same industry may calculate and report carbon emissions differently.

Furthermore, the ESG regulations are evolving rapidly across globe and stressing upon companies which are supposed to comply with multiple regulations related to carbon emissions, climate disclosures, employees' rights, and corporate governance practices. The frequent changes in policy create uncertainty, leading to compliance and regulatory challenge.

- **Lack of Reliable ESG Data**

The continuous and accurate data mining is required to go 'Green'. The companies often face difficulties in collecting data on carbon emission, employee welfare, and sustainability information of supplier. The data systems are either fragmented or unavailable. This issue is more acute for a multinational company which operates across many countries and struggle to collect standardized environmental or social data from all branches.

Additionally, many ESG indicators are qualitative in nature and difficult to quantify accurately. It is easier to measure financial profits by using accounting standards than employee satisfaction, community impact of society welfare projects undertaken by the enterprise, ethical culture, and effectiveness of diversity and inclusive environment. Therefore, businesses make incomplete or inaccurate ESG reporting, and face difficulty in monitoring and measuring ESG performance.

- **Lack of ESG-Oriented Expertise**

There is scarcity of trained professionals in many organizations, who can understand ESG parameters and their measurement, such as, sustainability metrics, climate risk assessment, and ESG reporting procedures. Therefore, they publish incomplete or wrong sustainability reports.

Moreover, the implementation of the ESG practices requires key changes in business operations and corporate culture. Sometimes, the workforce refuses to accept new sustainability policies, operational restructuring, better transparency, and ethical accountability systems. It results in ineffective and slower implementation of sustainability initiatives, and internal conflicts due to increased operational complexity.

- **Supply Chain Management Challenges**

Many companies are in contact of suppliers and vendors who may not adhere to ESG standards. It affects the ESG performance of supplier through labor practices, raw material sourcing, transportation emissions, and vendor ethics. Moreover, the monitoring of the entire supply chain is also a difficult task. The company has to bear the reputational risks, supply chain disruptions, and ESG compliance gaps, e.g. a clothing company may face issues if supplier uses child labor and/or environmentally harmful manufacturing methods.

- **Risk of Green washing**

The risk of green washing occurs when a company exaggerates or falsely claims various efforts on sustainability front. There are companies who report ESG parameters merely as a marketing strategy without any concrete and meaningful actions to improve ESG score e.g., advertising environmentally-friendly actions but continuously polluting operations without transparent ESG disclosures (Huiping et al., 2024). It may erode the investor's trust, damages the goodwill of enterprise, leading to legal consequences.

- **Shortage of Sustainable Infrastructure**

In many developing economies, sustainability infrastructure is still in developing stage. It may lack access to renewable energy grids, recycling systems, green transportation, and sustainable logistics networks. A company having electric logistics vehicles may face inadequate charging infrastructure. It impacts the companies in delayed ESG transition, higher sustainability costs, and operational inefficiency.

- **Probability of Reputational Risks from ESG Failures**

Nowadays, the probabilities of ESG failures in terms of environmental violations dent corporate reputation significantly because the stakeholders keep an eye on ESG performance.

It has been investigated that there is a tendency of negative impact on share prices and returns of companies, who face a major ESG controversy, such as, oil spills in sea, CO2 emissions, differential treatment to minority shareholders, manufacturing of relatively unhealthier and over-priced products, and labor unrest (Verheyden, Eccles, & Feiner, 2016).

Despite these challenges, ESG adoption across globe is steadily increasing due to regulatory support and investor demand.

Conclusion

The ESG framework is used to assess how companies are managing ecological responsibilities, societal relationships, and governance systems. In India, it has become buzzword of the time due to increasing investors' awareness, governments' intervention in the form of regulations, and climate concerns raised by different stakeholders.

The green practices are reshaping the Indian corporate landscape. The impacts are visible in efforts directed to conserve environment, employee welfare, investors' confidence, financial performance, and long-term business resilience. The adoption of ESG principles is granting competitive advantages to corporate, while contributing to national economic and sustainable development goals.

But, companies face numerous challenges in implementing them effectively. These include high costs, lack of standardization, technological barriers, resistance to change, supply chain complexities, and regulatory uncertainties. In developing economies like India, these challenges are further intensified by infrastructure limitations and limited awareness; but still ESG is becoming an integral part of corporate strategy in India. As regulations strengthen and stakeholders' awareness increases, ESG practices will play a crucial role in building a sustainable and inclusive Indian economy. However, the study has provided a baseline for future studies and more quantitative studies may be steered on the subject.

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