

Research Article**FROM CSR TO ESG: EVOLUTION OF CORPORATE RESPONSIBILITY
AND ITS IMPACT ON BUSINESS PERFORMANCE****Dr. K. Prasanna Rani¹, Battu Akhil ²**¹Assistant Professor of Law, University College of Law, Telangana University, Dichpally, Nizamabad.²LLM Scholar, University College of Law, Telangana University, Dichpally, Nizamabad.**Corresponding Author: Dr. K. Prasanna Rani.****Abstract**

Corporate responsibility has undergone a significant transformation from traditional philanthropy and voluntary social initiatives to an integrated framework of Environmental, Social and Governance (ESG) performance. Corporate Social Responsibility (CSR) established the principle that companies have responsibilities beyond profit generation, while ESG has developed a more structured language for measuring environmental impacts, social relationships, governance quality and sustainability-related risks. This article examines the evolution from CSR to ESG and analyses its implications for business performance. Recent empirical evidence from India indicates that ESG disclosure can be positively associated with firm performance, although findings differ according to industry, measurement methodology, time period and the specific performance indicator used. The article argues that the business value of ESG is strongest when responsibility is embedded into strategy, risk management, operations and governance rather than treated merely as a reporting exercise.

Keywords: Corporate Social Responsibility (CSR); Environmental, Social and Governance (ESG); Sustainability; Corporate Performance; Stakeholder Management; ESG Disclosure; Risk Management; Competitive Advantage; Corporate Governance; Greenwashing.

1. Introduction

The modern corporation operates within a complex network of relationships involving shareholders, employees, customers, suppliers, regulators, communities and the natural environment. For much of the twentieth century, corporate success was commonly assessed primarily through profitability, growth and shareholder returns. However, increasing awareness of environmental degradation, labour conditions, consumer rights, corporate scandals and climate-related risks has expanded the expectations placed upon business organisations. Corporate responsibility consequently developed from a relatively narrow philanthropic idea into a strategic management concern.

CSR represented an important stage in this transformation. It encouraged organisations to consider their social and environmental responsibilities alongside economic objectives. CSR programmes commonly included community development, education, healthcare, employee welfare, environmental protection and ethical business practices. Over time, however, stakeholders began to demand greater transparency and measurable evidence of corporate responsibility. This environment contributed to the rise of ESG.

2. Meaning and Evolution of CSR

CSR can be understood as the responsibility of a company for the consequences of its activities and its relationship with society. Traditional CSR frequently operated through projects or

programmes that were separate from core operations. A company might fund schools, support local communities, conduct employee volunteering or contribute to environmental initiatives. These activities could create social value and strengthen corporate reputation, but their financial and strategic relevance was not always systematically measured.

The development of stakeholder theory broadened the conceptual foundation of CSR. Companies were increasingly viewed as organisations whose long-term success depended on relationships with multiple stakeholders. This perspective encouraged management to consider employee satisfaction, customer trust, supplier relationships, community legitimacy and environmental impacts. CSR therefore began to move from philanthropy toward stakeholder management and strategic responsibility.

3. Emergence of ESG

ESG emerged as a framework capable of translating broad sustainability concerns into categories that can be assessed by investors, managers and other stakeholders. Environmental issues include greenhouse-gas emissions, energy consumption, waste management, pollution, biodiversity and climate risk. Social issues include labour standards, health and safety, human rights, diversity, customer welfare and community relations. Governance includes board independence, accountability, ethics, anti-corruption controls, executive remuneration, shareholder rights and internal controls.

A major distinction is therefore one of structure and measurement. CSR traditionally emphasised responsibility, ethical behaviour and social contribution. ESG increasingly emphasises measurable indicators, risk, disclosure and the relationship between sustainability factors and long-term corporate value. A systematic review published in 2024 notes that ESG has become an important framework for understanding management competence, risk management and non-financial performance.¹

4. CSR and ESG: Continuity and Difference

CSR and ESG should not be treated as competing concepts. CSR provides much of the ethical and stakeholder foundation from which ESG developed. ESG adds greater emphasis on measurable information, materiality, reporting and integration with financial and governance decisions. In practice, a mature organisation may use CSR programmes to create social value while using ESG systems to measure and govern the environmental, social and governance consequences of those activities.

The shift also reflects changing stakeholder expectations. Investors increasingly want information that can help them assess risk and long-term value. Regulators increasingly expect standardised sustainability disclosures. Boards increasingly consider climate, workforce, supply-chain and governance issues within enterprise risk management. Thus, ESG represents the institutionalisation and measurement of many issues previously addressed under CSR.

5. ESG and Business Performance

The central business question is whether ESG creates measurable economic value. Academic evidence does not provide one universal answer. A 2024 study of 167 Indian NSE-listed firms covering 2010–2020 found a positive relationship between ESG disclosure and several firm-performance measures, using dynamic panel methods designed to address endogeneity.² Another study of 305 NSE 500 companies for 2014–2022 examined environmental, social and governance disclosure separately and found that relationships with operational, financial and market performance can be linear or non-linear.³

These findings suggest that ESG can influence performance through multiple channels. Strong environmental management may reduce resource consumption, waste and exposure to environmental risk. Social responsibility may strengthen employee retention, productivity, customer loyalty and stakeholder trust. Governance can improve decision-making, accountability, internal controls and risk oversight. Together these mechanisms can contribute to resilience and long-term value.

However, ESG can also involve substantial short-term costs. Clean technologies, safety improvements, employee development, data systems, compliance processes and supply-chain due

diligence require investment. Therefore, management should evaluate ESG according to materiality and long-term strategic relevance rather than assuming that every initiative produces an immediate financial return.

6. Evidence from India

India is particularly important in the CSR-to-ESG transition because the Companies Act, 2013 created a statutory CSR framework for qualifying companies. Research on Indian firms has subsequently examined whether CSR and ESG disclosure are associated with corporate performance. A systematic review of corporate environmental responsibility in India found that 81% of the studies included in its review reported a positive and significant relationship between corporate environmental responsibility and corporate financial performance, while noting variation across studies and contexts.⁴

Research also indicates that the relationship between ESG disclosure and business performance is not necessarily identical across all sectors. A study of 272 Indian firms for 2015–2021 examined ESG disclosure, financial performance, market valuation and cost of debt, illustrating the expanding research interest in ESG as a financial and governance issue.⁵

7. ESG as a Source of Competitive Advantage

ESG may contribute to competitive advantage when it becomes embedded in capabilities that competitors cannot easily reproduce. Examples include efficient energy systems, responsible supply-chain networks, strong employee development, trustworthy governance, product innovation and credible stakeholder relationships. A company that reduces resource waste may lower costs; a company that builds strong employee relationships may reduce turnover; and a company with strong governance may identify risks earlier.

Reputation is another potential channel. Stakeholders may reward companies that demonstrate credible responsibility, while serious ESG failures can create regulatory, operational and reputational costs. Nevertheless, reputation benefits depend on credibility. If public claims are inconsistent with actual performance, the organisation may face accusations of greenwashing and lose stakeholder trust.

8. ESG, Risk Management and Long-Term Value

ESG has become closely connected with enterprise risk management. Environmental risks can affect physical assets, supply chains and operating costs. Social risks can arise from workplace safety, labour disputes, human-rights concerns and customer welfare. Governance risks include fraud, corruption, weak oversight, conflicts of interest and poor internal controls.

For senior management, the important question is not simply whether the company has an ESG report. The question is whether ESG information is used to improve decisions. Capital expenditure, procurement, product design, hiring, risk management and strategic planning can all incorporate material ESG considerations. When ESG becomes part of management systems, sustainability moves from the margins of corporate activity toward the centre of business strategy.

9. Challenges and Limitations

The ESG landscape contains several challenges. First, ESG ratings can differ because data providers use different definitions, methodologies and weightings. A 2024 systematic literature review found that differences among data providers and countries contribute to discrepancies in ESG research findings.⁶ Second, companies may struggle to collect reliable data from global supply chains. Third, the cost of implementation can be substantial, particularly for smaller companies.

Another challenge is causality. A positive relationship between ESG and performance does not automatically prove that ESG caused the stronger performance. Successful companies may have more resources to invest in ESG. Conversely, companies under financial pressure may postpone sustainability investments. This is why rigorous research methods and long-term analysis are necessary.

10. Strategic Role of Senior Management

Senior management should establish a clear ESG governance structure. The board should oversee material ESG risks and opportunities, while executives should assign responsibilities to

relevant functions. Finance, legal, risk, human resources, procurement, operations and investor relations can all contribute to ESG management.

Companies should also establish measurable objectives. Examples include reducing energy intensity, improving occupational safety, strengthening supplier standards, increasing workforce development and improving governance controls. ESG metrics should be reviewed regularly and connected to decision-making. Where appropriate, independent assurance can improve the reliability of reported information.

11. Conclusion

The movement from CSR to ESG represents a major development in the relationship between business and society. CSR established the importance of responsible corporate behaviour, while ESG has strengthened the measurement, governance and financial relevance of environmental, social and governance factors. Research from India and other markets suggests that ESG can be associated with business performance, but the relationship varies by context and measurement.

The most important lesson for modern organisations is integration. ESG should not exist as a separate public-relations function. It should be connected with strategy, risk, governance, capital allocation and operational performance. Companies that build credible systems for managing material ESG issues can strengthen resilience and improve their ability to respond to changing stakeholder, regulatory and market expectations.

Footnotes

1. Alice Martiny et al., "Determinants of environmental social and governance (ESG) performance: A systematic literature review," *Journal of Cleaner Production* 456 (2024), 142213.
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