

3

The Imperative for Integration: Why ESG and SDGS Need Each Other

Mr. Amresh Ray^{1*} & Mr. Vivek Gupta²

¹PhD Scholar in Business Sustainability Area, IIM Lucknow.

²HR Leader, an ISB Alum & Currently Working with a Leading Renewable Energy Company.

*Corresponding Author: efpm13003@iiml.ac.in

Abstract

This chapter suggests that sustainable development needs a combination of ESG with the SDGs but this is a process that should be purposeful. Instead of viewing them as the independent or competing frameworks, ESG and the SDGs must be considered as complementary elements of a single strategic logic: the SDGs constitute the priorities and desired outcomes of a normative nature, whereas the ESG is the set of organisational mechanisms with the help of which these goals can be managed, measured, and achieved. All the rest of this chapter elaborates this argument in a systematic way. Section 1.1 puts sustainability into the context of the present global risk dynamics; Section 1.2 puts SDGs into the context of an outcome-based framework; Section 1.3 puts ESG in the context of an organisational implementation tool; Section 1.4 analyses costs of siloed approaches and Section 1.5 outlines the rationale of an integrated ESG-SDG approach.

Keywords: ESG, SDGS, Sustainability Issues, Economic Stability, Social Solidarity, Biodiversity.

Introduction

The scale of sustainability issues, their intricacy, and interrelatedness are becoming defining features of sustainability issues in the early twenty-first century. The problem of climate change, degradation of biodiversity, the increasing social inequality, and economic instability as well as the governance failures are not independent issues anymore. Instead, they engage in interactions that increase systemic risks and limit long-term development channels to redefine the nature of how societies work and how markets distribute capital, labour and resources. The latest world indices point out to the fact that these intersecting pressures are moving up to the center as determinants of the economic stability, social solidarity, and institutional stability.¹

As a reaction to these circumstances, there are two powerful frameworks that have been developed to steer sustainability action in various levels. Sustainable development Goals (SDGs) propagate a common world vision of inclusive and sustainable development by outlining “**what**” should be attained by society by 2030.² Environmental, Social, and Governance (ESG) frameworks, in turn, have become the key to understanding “**how**” organisations and investors discover, address, and report sustainability-varying risks and opportunities. Although neither of the two frameworks are currently seldom used without being referenced, to a great extent, both have been moving in parallel directions, rather than being components of an integrated system.

The implications of this separation are significant. The SDGs give a clear idea on what sustainable development aims to do but lacks a detailed recommendation on how organisations can translate the world aspirations into strategy, corporate governance and action decision making. On the other hand, ESG frameworks incorporate sustainability within the corporate procedures, financial evaluations, and management schemes, but tend to be preoccupied with risk management and disclosure with no clear connection with the greater social results. On their own, these methods threaten to be fragmented, symbolically aligned, and with little effect in the real world.³

The Global Sustainability Challenge

Modern sustainability dilemma is defined by environmental degradation, social inequality and institutional frailty. The issue of climate change, biodiversity loss, scarcity of resources, demographic pressures and poor governance are becoming more widespread in influencing economic stability and human well-being, affecting market behaviour, investment flows, and development pathways across regions and sectors instead of being marginal issues.¹

One characteristic of this dilemma is that it is systemic in nature. Social, environmental, and economic pressures do not exist in isolation but rather across borders and across value chains, and the effect of these pressures is cascading in nature and can hardly be effectively dealt with through selective interventions. Food insecurity, displacement and social unrest are some of the shocks associated with climate that may be aggravated in an environment that is characterized by inequality and poor governance. These integrated risks are directly and indirectly related to the business processes, the financial performance, and long-term sustainability as summarised in Table 1.2.²



Figure 1: Global Risk and Sustainable Development Framework

The traditional policy and market reactions have been unable to cope with this complexity. Regulatory frameworks are otherwise disjointed across jurisdictions and policy regions, and the market mechanisms do not tend to internalise environmental and social externalities. Single-issue or incremental reactions can defuse immediate pressures but seldom tackle structural causes, leaving the disparity between the magnitude of sustainability questions and the efficacy of current reactions.

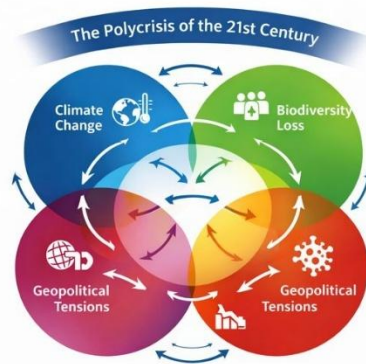
The key role in this context is taken by the private sector. Corporate decisions influence resource utilization, emissions, labour terms, innovation directions, and global value chains, making firms both the creators of and potential alleviators of systemic sustainability risk. Meanwhile, increasing investor, regulatory and civil society scrutiny is redefining the demands on corporate responsibility and accountability. As Figure 1 places these dynamics in an international risk environment to demonstrate how these forces interact and why compounded solutions are becoming more and more a necessity.³

Combined, the conditions underscore the necessity to change the disjointed sustainability practices to models that can manage the interconnected global risks. The perception of sustainability as a systemic issue offers the basis on which the explanation of the necessity to view outcome-based systems like the SDGs and implementation-based systems like ESG as a whole and not separate.

Table 1: Key Systemic Sustainability Risks and Business Implications

Systemic Risk	What It Means for Society	What It Means for Business
Climate Change (physical and transition risks)	More frequent floods, heatwaves, and droughts affect health, food, water, and act as a cause of migration	Disrupted supply chains, damaged assets, higher insurance costs, carbon pricing exposure, stranded investments
Biodiversity Loss	Weakening of natural systems that support food, water, and livelihoods	Scarcity of inputs, operational interruptions, pressure on reputation, increased regulatory control
Social Inequality & Demographic Stress	The disparity in access to work, healthcare, and education provides the root of unrest and instability.	The lack of talent, reduced productivity, disengagement of the workforce, brand and market risk.
Weak Governance & Institutions	Small capacity to mitigate crisis management or enforcement of laws to safeguard individuals	Unpredictability of the policy, difficulties in the compliance, risk of corruption, difficulty with the long-term planning.
Economic & Geopolitical Instability	Increased prices, interrupted commerce, war and exodus	Volatile markets, broken value chains, augmented investment risk, increased cost of capital

- **Polycrisis of the 21st Century**

**Figure 2: Polycrisis of 21st century**

The twenty-first century is characterized by the concurrent and strengthening nature of various crises in the world. Climate change, loss of biodiversity, growing inequality, threats to the public health, and geopolitical tensions have grown to occur together and not separately. Their interaction intensifies risks and forms complicated feedbacks that question traditional ways of governance and management.⁴

These linkages are found in practice. The effects of climate-related disturbances heighten food insecurity and displacement and lessen social instability,

whereas long-term inequality and underdeveloped institutions diminish the ability of the societies to effectively respond to environmental and economic shocks. The tendency of responding to these issues through policy measures that separate them into individual problems tends to cause pressures in one area and then spill over to another instead of achieving overall solutions.¹

This trend highlights the necessity to provide coordinated responses that would take into account all three aspects: environmental, social, and governance. Figure 2 demonstrates the polycrisis of the twenty-first century by demonstrating how the risks compound each other upon each other, which means that sustainability should be view as a systemic problem instead of a set of individual issues.²

- **Market Failure, Policy Gaps, and Institutional Weakness**

This sustainability issue that is being experienced worldwide is an indicator of structural deficiencies in markets, government policies, and institutions. Market processes often do not quantify environmental and social externalities leading to excessive exploitation of natural resources, insufficiency in investments of resilience and inadequate pricing of long-term risks. Such failures undermine the motivation to sustainable behaviour and distort the investment decisions.⁵

The response of policies has been left behind too. Regulatory frameworks tend to be jurisdiction and policy sector fragmented and lack the ability to tackle cross-border sector risk. In most cases, institutional limitations of capacity further diminish implementation, monitoring and enforcement, diminishing the effectiveness of well-willed policies.³

These structural barriers taken together limit progress in the achievement of sustainable development. Table 2 lists the major market failures, policy gaps and institutional weaknesses and indicates how they combine to constrain the ability to effectively respond and how they support the need to combine different approaches in order to align incentives, governance and accountability.⁶

Table 2: Structural Barriers to Sustainable Development

Structural Challenge	What's Really Going Wrong	What It Leads To
Market Failure	The social and environmental costs remain in the unseen section of prices, leading the capital and consumption to the incorrect direction	Continued depleting of resources, growth courses that are carbon laden, capital flowing away from sustainable options
Policy Gaps	Rules are disjointed, short-term or not in line with long term sustainability targets	Inconsistent signals to the market, uneven transitions, delayed action
Institutional Weakness	Limited capacity to govern, enforce rules, or align public goals with private behaviour	Ineffective implementation, low standards of accountability, insignificant change at a real-life level

Coordination Failure	Public agencies and private actors work in silos across levels and sectors	Repeated efforts, wasted resources, stalled systemic progress
Information Asymmetry	Sustainability data is incomplete, inconsistent, or hard to compare	Weaker decisions, limited transparency, difficulty tracking progress

- **Role of the Private Sector in Addressing Global Challenges**

The private sector holds a mid-point location in the sustainability arena of the world. Corporate choices determine resources utilization patterns, emissions, employment, innovation, and global value chains which makes firms as the sources of, and possible mitigators of systemic sustainability risks. Consequently, business activity has serious implications in terms of environmental or social results.¹⁰

Meanwhile, there is a changing expectation of corporate responsibility. Investors, regulators and civil society are growing more interested in firms to address sustainability-related risks proactively and to show responsibility in regard to their broader consequences. Corporate governance, disclosure practices and strategic decision-making in the various sectors are being re-modeled by these pressures.¹³

Figure 3 demonstrates how corporate strategy, operations, supply chains, finance, and governance have key channels through which they impact on sustainability outcomes. Collectively, these forces underscore the need to have substantive development only when the active involvement of the private sector and frameworks that can incorporate sustainability thinkings into organisational mainstream practices become a reality.¹⁵



Figure 3: Channels Through Which the Private Sector Influences Sustainability Outcomes

The SDGs as the “What”: A Universal Blueprint



Figure 4: Sustainable Development Goals

The Sustainable Development Goals (SDGs) represent the most universalized world agenda towards the establishment of the results of sustainable development. The SDGs are adopted by all United Nations Member States in 2015 and reflect common priorities on the need to achieve environmental protection, social inclusion, economic prosperity, and institutional strength by 2030. Their global vision is indicative of the fact that the issues of sustainability are global and are interconnected and need to be addressed collectively by countries and industries.⁷

One of the most important characteristics of the SDG framework is the indivisible design. The goals take into consideration that an achievement in one area can support or undermine the results in other areas, signifying that it is possible to find trade-offs and synergies among development objectives. In this regard, the SDGs are more of a normative template, which explains what the societies all want to accomplish, but is purposefully flexible in how these results are attained.⁸

In terms of organisations, the SDGs offer strategic orientation and a common language of locating corporate actions in the broader social priorities. They facilitate congruency between geographies and contact with policymakers and stakeholders, but do not provide much advice on the manner in which the global ambitions are to be converted into organisational strategy, governance and performance management. Consequently, although SDGs are necessary in establishing the desired results, they need complementary frameworks to facilitate their application to the firm level.¹¹

- **Evolution and Philosophy of the SDGS**

The SDGs are the result of the previous international development frameworks, including the Millennium Development Goals (MDGs), which contributed to the mobilisation of global action on the issues of poverty and human development. Nonetheless, the constrained nature and the initial orientation of the MDGs towards developing economies limited the ways in which the interdependent issues of sustainable development could have been appropriately tackled.⁷

The SDGs have been a calculated philosophical move towards integration. Instead of considering development, environmental protection and economic growth as different agendas, they highlight concomitant advancement on social, ecological, economic and institutional levels. This is indicative of increasing the agreement that development trajectories should be driven by both planetary and social limits instead of being driven by short term targets of growth.⁸

The second characteristic of SDGs is their universal and normative nature. Contrary to previous frameworks, they are relevant to all nations, and they stress collective responsibility between governments, markets and civil society. By so doing, the SDGs position sustainable development as a social decision regarding the long-term welfare and does not offer a standardized approach to its implementation.⁷

- **SDGs as an Integrated and Indivisible Framework**

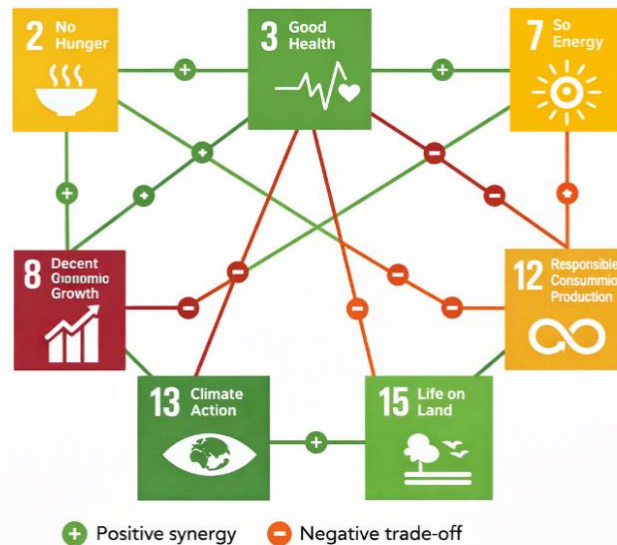


Figure 5: Interactions and Trade-offs Across the SDGs

SDGs are explicitly made out to be a holistic and inseparable system. The environmental, social, economic, and institutional goals are addressed as

interconnected, and the development of such spheres as health, energy, and economic growth is influenced by ecological restrictions and the quality of governance. Such systems oriented framing is a break with linear development models.

Studies on SDG interactions reveal that the framework is associated with synergies and trade-offs. One goal can result in co-benefits or unintended consequences to other people when not directly controlled. These interactions are depicted in Figure 5 and this emphasises the importance of concerted efforts that acknowledge interdependencies as opposed to sequential interventions coordinated to local objectives.⁸

Strengths and Weaknesses of the SDGs

The mass adoption of SDGs is indicative of a number of strengths. They offer a universally accepted language of sustainability that has facilitated alignment of governments, businesses and civil society and aids congruency of policy agendas and business strategies. Table 3 summarises these strengths by comparing the conceptual value of the SDGs with their practical constraints.⁷

However, at the organisational level, the SDGs do not provide much operational guidance. Majority of targets and indicators are aimed at national reporting and are not very translatable to firm level strategies, metrics and governance procedures. This complicates performance measurement and prioritisation to organisations.¹¹

Their width and versatility, which plays to their popularity, pose threats. In the absence of counterbalancing implementation solutions, SDG engagement can continue to be selective or symbolic, which justifies the necessity of organisational structures that can help to turn global ambitions into responsible and practical implementation.¹²

Table 3: Strengths and Limitations of SDGs

Dimension	What the SDGs Do Well	Where They Struggle
Conceptual Value	Provide a shared global language that helps diverse actors align around common sustainability goals	Remain largely aspirational, with limited guidance for day-to-day organisational decisions
Stakeholder Alignment	Bring governments, businesses, civil society, and multilateral bodies onto a common platform	Formal alignment does not always translate into coordinated action on the ground
Scope & Ambition	Integrate economic, social, environmental, and governance priorities into one agenda	Breadth can blur focus, making prioritisation and resource allocation difficult

Measurement	Supported by global indicators that track progress at national and international levels	Indicators are not designed for firm-level management or operational control
Corporate Adoption	Help organisations express purpose and societal relevance	Risk of symbolic use or SDG-washing when not embedded into strategy and operations

- **Why Businesses Struggle to Operationalize the SDGs**

Although the SDGs have been largely accepted, organisations find it challenging to incorporate them into strategy and day-to-day decision-making. Being outcome-oriented, there are no details on how firms should structure the implementation routes or align priorities into the inner workflows, as the SDGs only say what needs to be done.⁹

Translating global objectives into company specific priorities and quantifiable indicators is especially difficult in multinational companies that are working in varying settings and multifaceted value chains. When there is no obvious prioritisation and measurement, SDG engagement usually involves selective mapping instead of integrated integration.¹⁰

The mechanisms of accountability also limit implementation. Governments bear the main responsibility of overseeing SDG implementation, and the involvement of the private sector is not that compulsory. Unless there are standardised governance systems, incentives and controls, SDG commitments can be divided or hollow bonuses as there is a need to provide complementary frameworks like ESG to provide support to implementations at the organisational level.²⁹

ESG as the “How”: A Corporate Implementation Tool

The SDGs describe the results of sustainable development, but organisations need systems that will help them to transform the ambitions into strategy, governance, and operational decision-making. ESG frameworks have become one of the key tools of implementation, as these frameworks can help firms to establish, address and quantify risks and opportunities associated with sustainability at the organisational level.¹³

ESG incorporates sustainability in corporate governance, risk management, investment analysis, and accountability systems, which connects the priorities of global development and the management practices of an organization. Under an environment of increasing investor scepticism, regulatory development, and stakeholder pressure, ESG is increasingly guiding the operationalisation of sustainability especially outside disclosure, affecting capital allocation, management, and performance. The diagram of the ESG (Figure 6) shows ESG as organisational how that converts SDG ambitions into corporate action.¹⁴

ESG as the “How” for SDG Implementation



Figure 6: ESG as the "How" for SDG Implementation

This part looks into the development of ESG and its contribution to the corporate performance and governance, evaluating its advantages and disadvantages and making ESG the instrument that converts SDG-compliant aspirations into quantifiable and manageable results.¹⁵

- **Emergence and Evolution of ESG**



Figure 7: Emergence and Evolution of ESG

In last two decades, the approach to the Environmental, Social, and Governance (ESG) issues has changed significantly compared to the previous trends in corporate sustainability practices, including Corporate Social responsibilities (CSR) and Socially Responsible Investment (SRI). CSR initiatives were usually peripheral to core business strategy and are concerned with voluntary and philanthropic or reputational activities whereas SRI was concerned with ethical investment choices, which frequently involves screening of certain sectors or practices through exclusionary means.¹⁶

ESG is also an unmistakable move towards resocializing environmental and social concerns as being financially material to corporate risk, long-term performance and value creation. Instead of engaging in the business processes that are not part of the core business, ESG integrates the concept of sustainability in the governance frameworks, risk management systems, and capital allocation decisions. This development is part of the wider change in financial markets, in which sustainability is increasingly identified as a key to organisational resilience and positioning.¹⁷

Figure 7 shows how this shift of principles of peripheral and values-based approaches to ESG is becoming more of a systematic framework integrated into corporate governance and investment analysis. ESG has emerged as a leading prism according to which firms and investors evaluate long-term performance, exposure to risks, and strategic competitiveness in an environment dominated by environmental stress, social pressures and increased systemic uncertainty.¹⁸

- **Esg Pillars and Corporate Decision-Making**

ESG has become the main paradigm of dealing with risks of sustainability that impact on the long-term corporate performance. Environmental, social, and governance risks such as climate transition, labour practices, and governance failures are becoming financially material, and are now becoming part of the corporate risks management and strategic planning processes.¹⁵

In addition to risks mitigation, ESG promotes the value creation through efficient operations, building stronger relationships with stakeholders, and enhancing access to capital. Being part of governance and decision-making systems, but not a reporting exercise, ESG practices are linked with resilience, innovation, and long-term financial performance.¹⁴

Table 4 Impacts on the translation of the three pillars of sustainability into practical aspects of company decision making

Table 4: ESG Pillars and Key Areas of Corporate Decision-Making

ESG Pillar	What It Focuses On	What It Drives in Practice
Environmental (E)	How a company manages emissions, energy and water use, resources, waste, and climate-related risks	Investment in low-carbon options, supply-chain choices, risk controls, and long-term operational resilience

Social (S)	How people are treated across operations and the value chain, including labour practices, safety, inclusion, human rights, and community relations	Workforce policies, supplier standards, talent attraction and retention, social licence to operate, reputation management
Governance (G)	How decisions are made and overseen through boards, incentives, ethics, transparency, risk systems, and stakeholder engagement	Oversight of ESG risks, credibility of disclosures, and alignment of incentives with long-term value

- **ESG Metrics, Ratings, and the Disclosure Ecosystem**

The popularisation of ESG has created a wide ecosystem of measures, standards, and ratings that enhances the visibility of sustainability data in corporate reporting and financial markets. Voluntary and regulatory disclosure systems now take centre stage in influencing investment analysis and governance control.¹⁹

However, methodological differences across ESG ratings limit comparability and complicate interpretation. Despite these limitations, ESG data increasingly informs portfolio construction, stewardship, and engagement, reinforcing the material relevance of sustainability considerations in corporate decision-making.²⁰

Strengths and Operational Constraints of ESG

ESG frameworks offer several strengths that explain their rapid adoption by companies and investors. By translating environmental, social, and governance issues into structured metrics and disclosures, ESG embeds sustainability considerations within corporate governance, risk management, and investment analysis. This integration improves the visibility of non-financial risks, enables benchmarking across organisations, and strengthens accountability by linking sustainability performance to oversight and capital allocation mechanisms.¹³ Table 5 summarises these strengths and how ESG assists organisations to execute.

At the same time, ESG faces well-documented operational constraints. The proliferation of standards, rating agencies, and reporting requirements has produced inconsistent methodologies and divergent assessments of corporate ESG performance, limiting comparability and weakening the clarity of ESG signals. Moreover, when disclosure is prioritised over substantive change, ESG implementation risks reinforcing compliance-driven or reputational strategies rather than delivering measurable environmental or social outcomes.²⁰

Taken together, these strengths and limitations suggest that ESG is most effective when embedded within robust governance structures and aligned with clearly defined sustainability objectives. Without such alignment, ESG risks remaining a managerial or reporting instrument rather than a mechanism for meaningful societal impact—reinforcing the importance of connecting ESG frameworks with outcome-oriented agendas such as the SDGs.

Table 5: Strengths and Limitations of ESG

Dimension	What ESG Does Well	Where It Falls Short
Orientation	Turns sustainability intent into measurable actions and indicators	Can slip into compliance-driven activity rather than deeper change
Integration	Embeds sustainability into governance, risk, and financial systems	Often tied to short-term reporting and performance cycles
Measurement	Allows tracking and peer comparison	Inconsistent ratings and frameworks reduce clarity and comparability
Impact Focus	Links sustainability to financial risk and materiality	Emphasises risk control more than real-world outcomes
Corporate Adoption	Raises accountability at board and leadership levels	Risks becoming a box-ticking exercise without strategic depth

The Cost of Silos: Greenwashing and Missed Opportunities

**Figure 8: The Cost of Silos**

As individual objectives, however, ESG and SDGs have flaws that diminish their usefulness. ESG frameworks that are not aligned to wider development interests are more likely to focus on risk management, disclosure, and financial materiality without stating what societal outcomes are. This may have an effect of gradually changing internal processes but leaving unaddressed the underlying sustainability issues, which leaves ESG inward-facing and investor-signalling-oriented instead of being based on creating societal value.²¹

On the other hand, consistent interaction with the SDGs in the absence of complementary implementation mechanisms is mostly just a dream. Although the SDGs present a rather ambitious vision of the sustainable development, most organisations often find it difficult to transform these objectives into tangible actions, measurements, and governance systems. In the absence of SDG alignment being engrained in decision-making, performance management, and accountability systems, it will likely be symbolic or lacking any linkage with business core operations.¹²

These siloed strategies have actual strategic costs. ESG minus SDGs means optimising processes that are measurable but with no meaningful impact and conversely SDGs minus ESG lack the organisational structure to implement the SDGs. Figure 8 presents the role of this separation in credibility risks, missed opportunities and erosion of trust, forming a case of need to consciously incorporate outcome-based global objectives and firm-level implementation structures.

- **SDGs Without ESG: The Risk of Strategic Irrelevance**

Without well-developed ESG structures, organisations that embrace the SDGs will undermine them to mere token promises. Without the supporting governance, risk management and performance systems, SDGs are usually implemented as communication tools by applying selective goal mapping or sustainability reporting with minimal impact on strategic decision-making.¹¹

This disconnect limits the process of converting global development priorities into action-tangible results, or accountability processes. The lack of ESG controls to support SDG engagement means that it is seldom related to capital allocation, product innovation, or value-chain management, which limits its strategic applicability.¹² Table 6 compares ESG-only and SDG-only strategies and shows that SDGs are prone to strategic marginalisation in their absence.

In the long term, this superficial alignment compromises credibility and the ability of the SDGs to transform the private sector, which justifies the relevance of ESG frameworks in order to anchor SDG ambitions into the daily organisational practice.

Table 6: Risks of ESG-only vs SDG-only Approaches

Dimension	ESG Used in Isolation	SDGs Used in Isolation
Strategic Focus	Centres on risk management and disclosure, with weak links to wider development outcomes	Sets ambitious global goals, but remains distant from core business strategy
Implementation	Strong on processes and metrics, yet often lacks a unifying societal purpose	Clear on intent, weak on execution pathways
Measurement	Depends on ESG scores that do not always reflect real-world impact	Indicators suit national tracking, not firm-level management
Governance & Accountability	Embedded in governance, but can drift toward compliance-led oversight	Limited mechanisms to hold firms accountable for delivery
Credibility Risk	Prone to box-ticking and short-termism	Vulnerable to symbolic alignment and SDG-washing
Value Creation	Misses innovation opportunities tied to societal needs	Has little influence on capital allocation or business model choices
Overall Risk	Leads to technocratic sustainability with limited change potential	Risks strategic irrelevance over time

- **Greenwashing, SDG-Washing, and the Trust Deficit**

The mismatch between sustainability reports and reality comes in the form of greenwashing and SDG-washing. Such gap is usually conveyed by means of selective disclosure, inflated impacts or application of sustainability labels without the relevant changes in the governing or decision making processes. When this is the case, sustainability narratives can be viewed as communication tools, as opposed to signs of actual change.²²

These inconsistencies become more apparent as more demanding scrutiny is put on them by regulators, investors, and the civil society. Continuous inconsistencies may lead to the loss of reputation, control measures, weakening investor trust, and limited access to funds. In addition to the case of single companies, recurrent acts of greenwashing also lead to a similar overall loss of trust, which compromises the credibility of sustainability promises and systems in a wider sense.²³

- **Lost Opportunities from Lack of Integration**

Lack of substantive ESG-SDG integration also leads to lack of value creation opportunities. Unless there is a clear correspondence between material ESG concerns and corresponding SDG deliverables, there is a risk that organisations will

overlook the material risks and opportunities that a climate transition, social inclusion, and changing regulatory and market expectations may present.²⁴

It can be seen, in particular, in the decisions of capital allocation, where the primary emphasis is on the short-term reduction of risks or compliance, rather than on initiatives that are intended to contribute to long-term value creation and quantifiable difference. Siloed approaches are also a limiting factor to innovation, as it becomes less probable that the companies would create new products, services, or business models that can meet the needs of the society and enhance competitiveness. The lack of a resolution can undermine the organisational resilience as, with sustainability defining more and more policy, investment and consumer behaviour.²⁵

Toward an Integrated ESG–SDG Framework

The constraints outlined in the previous sections lead to the fact that there is a necessity of the integrated approach that will be able to combine the outcome-oriented global objectives with the organisational implementation mechanisms. A combined ESG SDG framework can fill this gap by connecting the normative SDGs goals with the ESG governance system, risk management system, and performance system. Instead of viewing ESG and SDGs as similar or competing agendas, integration allows organisations to coordinate strategy, capital allocation, and accountability structures and achieve defined results in the society.¹²

This integrative logic is demonstrated in Figure 9. The SDGs are set as the normative frame of reference that outlines the priorities of global development and ESG offers the institutional processes governance, risk management, performance measurement and operational oversight through which the priorities are converted into organisational action. Centrally, integration assists in strategic alignment, accountability and credibility, innovation, and balancing decisions, making firms no longer focus on compliance-based sustainability but creating long-term value with quantifiable contributions.

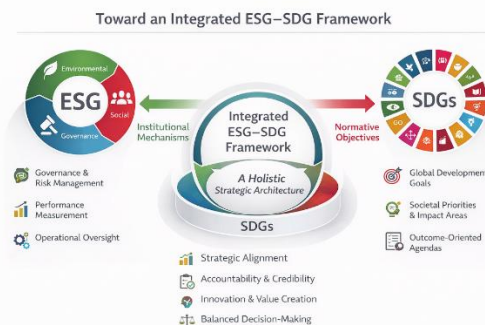


Figure 9: Integrated ESG-SDG Framework

The practical usefulness of early ESG-SDG integration can be understood with example of Unilever. Having the Unilever Sustainable Living Plan and its follow-up Compass strategy, the company clearly matched the material ESG priorities, including climate action, responsible sourcing, labour standards, and consumer health, with the SDG outcomes. Notably, these commitments were institutionalized in the governance structure, executive incentive systems, capital allocation systems and its product innovation systems and not as separate sustainability programs.^{26,27}

This combined strategy allowed Unilever to connect sustainability goals to operational effectiveness, supply-chain resiliency, and brand differentiation and enhance trust among investors and regulators. The academic evidence also indicates that these types of integrations can make organisations more effective in processes and long-term performance due to the fact that sustainability is incorporated within core decision-making and long-term strategic and societal value is realised through these types of integrations as opposed to siloed strategies that lead to high costs.¹³

Conclusion

This chapter has determined the rationale behind the integration of the Environmental, Social, and Governance (ESG) models with the Sustainable Development Goals (SDGs) is not only important but also lead to strategic consequences. It placed corporate sustainability in the framework of interdependence of global issues, extolled by environmental pressure, social disparity, and institutional weakness, and why attractive actions are inadequate. It was in this context that the SDGs were seen as a global, results-driven roadmap that defines what sustainable development aims to accomplish, whilst ESG was seen as the organisational tool by which those aspirations can be transformed into strategy, governance and real performance.

This review has shown that ESG and the SDGs as discrete or chronological programs are expensive. ESG that operate without consideration of the societal outcomes would tend to go inward and compliance-oriented, whereas SDG incorporation without ESG does not have the governance frameworks, incentives, and measures to be performed. Such siloed strategies are associated with the risk of greenwashing, strategy irrelevance, lost innovation, and a loss of stakeholder confidence. Comparatively, integrated ESG-SDG frameworks match the material risks and opportunities with other development priorities, enhancing capital allocation, accountability, and long-term value creation.

Collectively, the chapter transforms the concept of ESG-SDG integration into a systems approach as opposed to an addictive activity. Challenges of sustainable development are also interrelated, and they need strategies that make the global norms meet organisational decision-making and motivations. By purposefully connecting ESG mechanisms to SDG results, organisations can go beyond disjointed

reporting to integrated strategies that tie financial performance and social and environmental impact. Such a combined approach forms the conceptual basis of the analytical frameworks and practical applications investigated in the following chapters, which consider the ways of how ESG-SDG integration may be operationalised in sectors, within the context of governance, and in organisational environments.

References

1. Intergovernmental Panel on Climate Change. *AR6 Synthesis Report: Climate Change 2023*. Geneva: IPCC; 2023. Available from: <https://www.ipcc.ch/report/ar6/syr/>
2. World Economic Forum. *Global Risks Report 2023*. 18th ed. Geneva: World Economic Forum; 2023. Available from: <https://www.weforum.org/reports/global-risks-report-2023>
3. OECD. *Global Outlook on Financing for Sustainable Development 2023*. Paris: OECD Publishing; 2023. Available from: <https://www.oecd.org/dac/global-outlook-on-financing-for-sustainable-development/>
4. Tooze A. Polycrisis: The crisis nobody understands. *Foreign Policy*. 2022. Available from: <https://foreignpolicy.com/2022/10/19/polycrisis-global-economy-geopolitics/>
5. Stiglitz JE, Fitoussi JP, Durand M. *Measuring what counts: The global movement for well-being*. New York: The New Press; 2019.
6. United Nations Development Programme. *Human Development Report 2019*. New York: UNDP; 2019. Available from: <https://hdr.undp.org>
7. United Nations. *Transforming our world: the 2030 Agenda for Sustainable Development*. New York: United Nations; 2015. Available from: <https://sdgs.un.org/2030agenda>
8. Nilsson M, Griggs D, Visbeck M. Policy: Map the interactions between Sustainable Development Goals. *Nature*. 2016;534(7607):320–322. doi:10.1038/534320a
9. Kanie N, Biermann F. *Governing through goals: Sustainable Development Goals as governance innovation*. Cambridge (MA): MIT Press; 2017.
10. Van Zanten JA, Van Tulder R. Multinational enterprises and the Sustainable Development Goals. *J Int Bus Policy*. 2018;1:208–233. doi:10.1057/s42214-018-0008-x
11. Van der Waal JWH, Thijssens T. Corporate involvement in the Sustainable Development Goals: Exploring the territory. *J Clean Prod*. 2020;252:119625. doi:10.1016/j.jclepro.2019.119625

12. Bansal P, Kistruck G, Yin J. The ESG–SDG disconnect: Evidence from corporate sustainability practice. *Acad Manage Perspect.* 2021;35(2):244–259. doi:10.5465/amp.2019.0115
13. Eccles RG, Ioannou I, Serafeim G. The impact of corporate sustainability on organizational processes and performance. *Manage Sci.* 2014;60(11):2835–2857. doi:10.1287/mnsc.2014.1984
14. Friede G, Busch T, Bassen A. ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *J Sustain Finance Invest.* 2015;5(4):210–233. doi:10.1080/20430795.2015.1118917
15. Amel-Zadeh A, Serafeim G. Why and how investors use ESG information. *Financ Anal J.* 2018;74(3):87–103. doi:10.2469/faj.v74.n3.2
16. Elkington J. *Cannibals with forks: The triple bottom line of 21st century business.* Oxford: Capstone; 1997.
17. Porter ME, Kramer MR. Creating shared value. *Harv Bus Rev.* 2011;89(1–2):62–77.
18. Eccles RG, Klimenko S. The investor revolution. *Harv Bus Rev.* 2019. Available from: <https://hbr.org/2019/05/the-investor-revolution>
19. Kotsantonis S, Serafeim G. Four things no one will tell you about ESG data. *J Appl Corp Financ.* 2019;31(2):50–58. doi:10.1111/jacf.12346
20. Berg F, Koelbel JF, Rigobon R. Aggregate confusion: The divergence of ESG ratings. *Rev Financ.* 2022;26(6):1315–1344. doi:10.1093/rof/rfac033
21. Porter ME, Serafeim G, Kramer MR. Where ESG fails. *Institutional Investor.* 2019. Available from: <https://www.institutionalinvestor.com/article/b1f5n3z1x6n9t4/where-esg-fails>
22. Lyon TP, Montgomery AW. The means and end of greenwash. *Organ Environ.* 2015;28(2):223–249. doi:10.1177/1086026615575332
23. Delmas MA, Burbano VC. The drivers of greenwashing. *Calif Manage Rev.* 2011;54(1):64–87. doi:10.1525/cmr.2011.54.1.64
24. Schaltegger S, Hörisch J, Freeman RE. Business cases for sustainability: A stakeholder theory perspective. *Organ Environ.* 2019;32(3):191–213. doi:10.1177/1086026619832447
25. Eccles RG, Serafeim G. Corporate and investor implications of sustainable development. *Harv Bus Sch Working Paper.* 2018.
26. Unilever. *The Unilever Sustainable Living Plan: Progress and performance.* London: Unilever; 2010–2020. Available from: <https://www.unilever.com/planet-and-society/sustainable-living/>
27. Unilever. *The Unilever Compass: Our strategy for sustainable growth.* London: Unilever; 2021. Available from: <https://www.unilever.com/planet-and-society/unilever-compass/>.

