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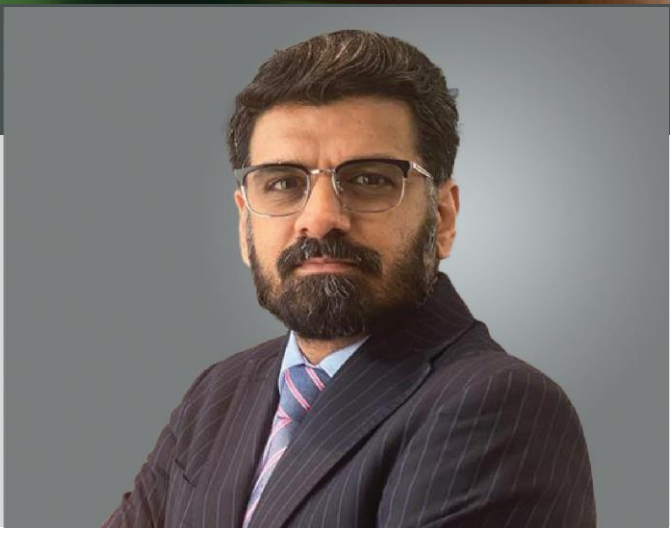
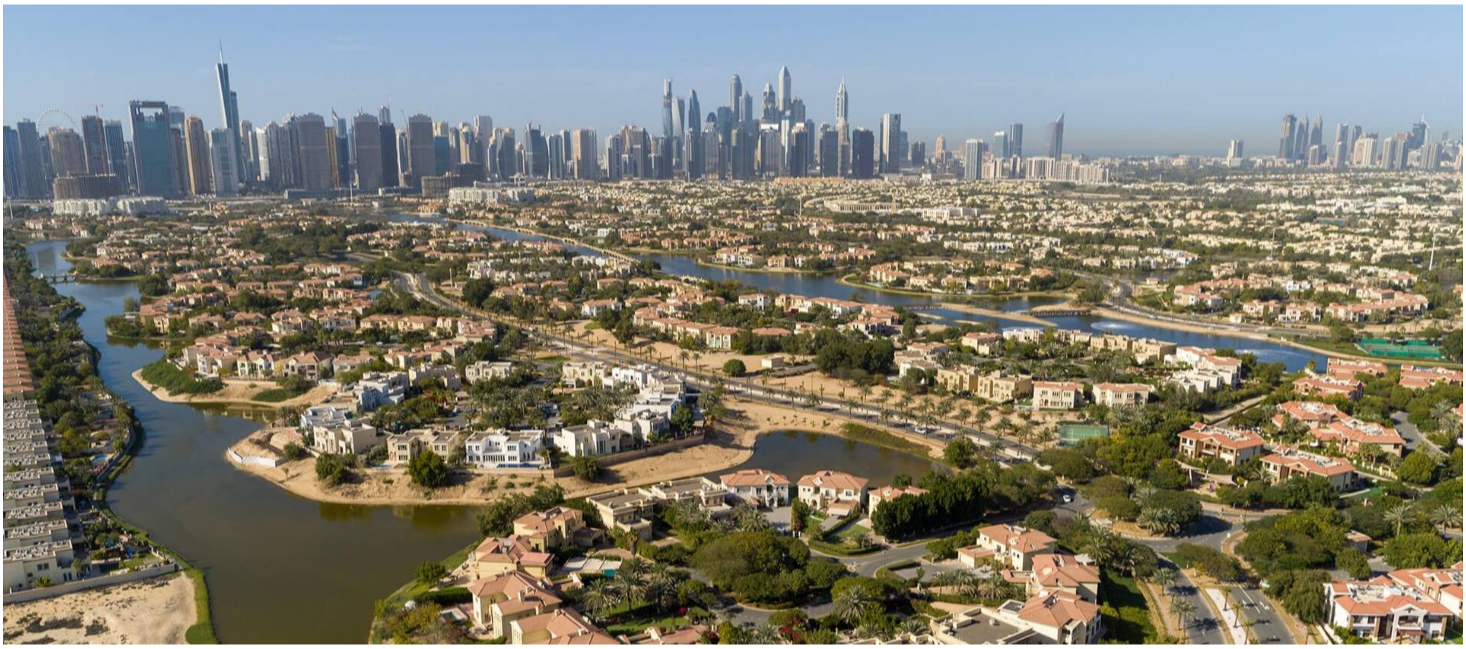
CBI Insights talks with Manas Bhatt, Senior Vice President for Corporate Finance and Financial Institutions, CBI Wholesale Banking, on



The Growing Significance of ESG Factors in Investor and Corporate Decision-Making

In today's business landscape, investors and stakeholders are increasingly taking into account three crucial factors when evaluating a company's overall performance and sustainability: environmental, social, and governance (ESG) considerations. ESG criteria provide a framework for assessing a company's governance practices, environmental impact management, and social relationships. As concerns about climate change, social inequality, and corporate governance gain prominence, the importance of ESG factors has risen, exerting pressure on companies to adopt environmentally friendly practices and disclose more information about their ESG performance. This article explores the significance of ESG factors in shaping investor and corporate decision-making and their potential impact on financial outcomes and social progress.

At CBI, we understand that ESG considerations are gaining momentum in investor and corporate decision-making processes. Prioritising ESG factors enables businesses to manage risks, reduce costs, and foster long-term resilience. Simultaneously, investors incorporating ESG factors into their investment strategies may enjoy financial gains while contributing to a more sustainable and equitable future. The significance of ESG factors is expected to continue growing, as businesses and investors recognise the potential influence they can have on financial outcomes and societal progress. In line with this commitment, CBI have been issuing ESG reports for past three consecutive years; it forms an integral part of our annual report.



First, we need to understand the components of ESG. ESG factors encompass non-financial indicators that gauge a company's impact on the environment, society, and governance. Environmental criteria focus on the organisation's carbon footprint, resource usage, waste management, and pollution control efforts. The social criteria evaluate a company's relationships with workers, clients, suppliers, and local communities. Lastly, governance criteria examine the company's management systems, including board structure, executive compensation, and transparency.

ESG factors can significantly influence how Corporate Finance decisions are made. ESG factors have gained considerable traction within socially responsible investing (SRI) strategies. SRI aims to generate financial returns, while fostering positive social and environmental outcomes. By incorporating ESG criteria into their decision-making process, investors can assess a company's long-term sustainability and the associated risks and opportunities. ESG serves as a framework for evaluating a company's business practices and guides investors in making informed investment choices.

The impacts of ESG factors are such that they have the potential to significantly influence Corporate Finance decisions. Companies prioritising ESG considerations are more likely to invest in environmentally friendly methods and technologies, reducing their carbon footprint and environmental risks. Such practices enhance a company's resilience against environmental and social risks, including reputational harm, supply chain disruptions, and climate change impacts.

Moreover, integrating ESG factors into financial decision-making helps businesses reduce long-term costs, improve operational effectiveness, and enhance their reputation. For instance, organisations that emphasize diversity and employee well-being have a greater chance of attracting and retaining top talent, leading to improved financial performance.

ESG factors are not only impacting corporate decision-making but also influencing investor behavior. Institutional investors, such as pension funds, endowments, and asset managers, are increasingly considering ESG factors when making investment decisions. These investors view ESG as a proxy for risk management and an indicator of a company's long-term viability.

Additionally, individual investors are displaying a growing interest in ESG investing. ESG investments are among the asset classes experiencing rapid growth worldwide. ESG investing allows investors to align their values and beliefs with their investment choices, potentially generating financial and social returns simultaneously.

As an increasing number of regulators, governments, and countries prioritise ESG credit, it becomes evident that ESG finance is gaining significant momentum for the foreseeable future