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What is ESG and Why Do Companies Care?

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As companies continue their quest to mitigate their carbon footprint, achieving a "net-zero" goal is one slice of their sustainability pursuit. There are three main factors that are used to assess the sustainability and ethical impact of a company's operation. These three factors are referred to by their acronym "ESG," or Environmental, Social, and Governance. In recent years, ESG has become a critical concept in business, influencing how companies operate, make decisions, and engage with communities.

While ESG may seem like a concept reserved for large corporations or financial investors, it's becoming increasingly relevant to all sectors, including agriculture. As agribusiness adopt ESG initiatives, farmers and ranchers play a critical role along the supply chain by providing companies with agricultural inputs for companies to reach their ESG goals. So, what does Environmental, Social, and Governance mean for corporations, and what elements are considered under each initiative?

> **Environmental (E):** The environmental aspect focuses on how the company impacts the planet. This includes a wide range of issues, from how the business sources raw materials to its carbon footprint and waste management. For example, a company may invest in renewable energy, like wind energy, to operate their facilities. In agriculture, a company may source climate-smart corn and soybeans (e.g., grain produced under no-till production and the use of cover crops) to reduce the carbon footprint of their raw inputs.
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> **Social (S):** The social factor of ESG examines how companies manage relationships with people along their supply chain, employees, customers, and community members. Labor rights, fair wages, safe working conditions, community engagement, and customer satisfaction are elements of social responsibility (e.g., ensuring compliance with H2A requirements).
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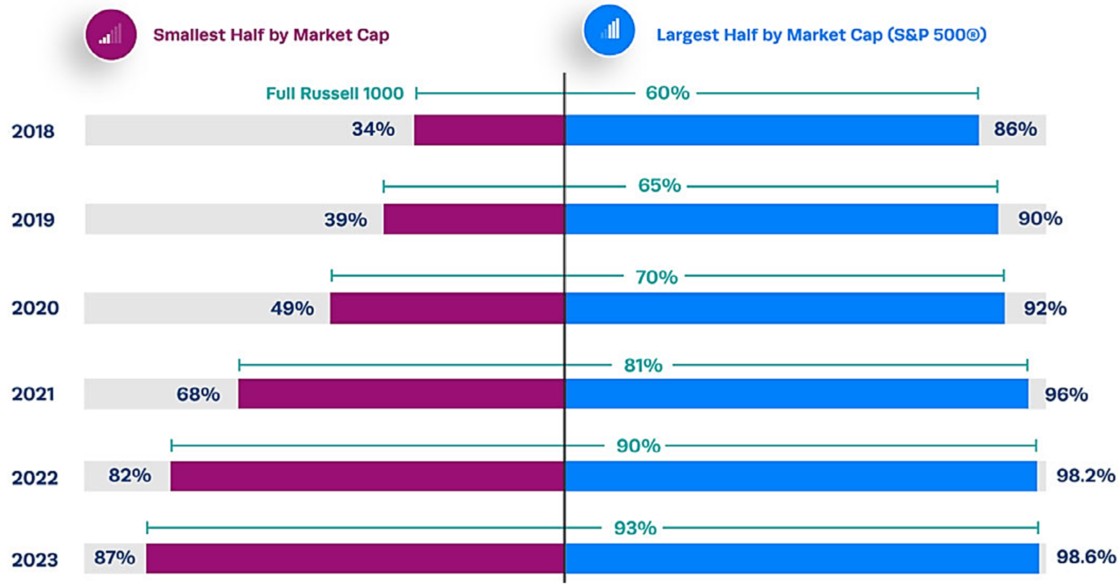
> **Governance (G):** Governance refers to how a company is run. Leadership structure, ethical practices, and compliance with rules and regulations are critical elements in how decisions are made within the business. Accountability and transparency are required for stakeholder trust and the long-term sustainability of the organization.

Figure 1 below illustrates that almost all the S&P 500® reported on their sustainability efforts in 2022. While ESG reporting will look and be named differently across each company, the overall goal is the same: communicate their

ESG efforts to stakeholders. Examples can be found in the following company reports:

- Tyson
- Walmart
- McDonald
- Nestle

Figure 1. Percent of the Russell 1000 and S&P 500® companies that have sustainability reporting (Governance & Accountability Institute, Inc)



Consumer demand, investment appeal, reducing the company's risk profile, employee engagement and retention, and international trade are reasons why companies are pursuing the above initiatives. Understanding corporate ESG initiatives, especially the "E," helps explain why companies are seeking "net-zero" goals. However, companies must first measure the amount of greenhouse gas emissions they emit before they can implement strategies to reach their environmental goals.

Greenhouse gas emissions of a company, in the context of ESG, are typically reported as metric tons of "carbon dioxide equivalent" or CO_2e. This measure standardizes the different types of greenhouse gases into one common measure, since greenhouse gases like methane (CH_4) are 28 times more potent than CO_2 (U.S. EPA, 2025). Companies often report greenhouse gas emissions in three primary categories. Those categories are:

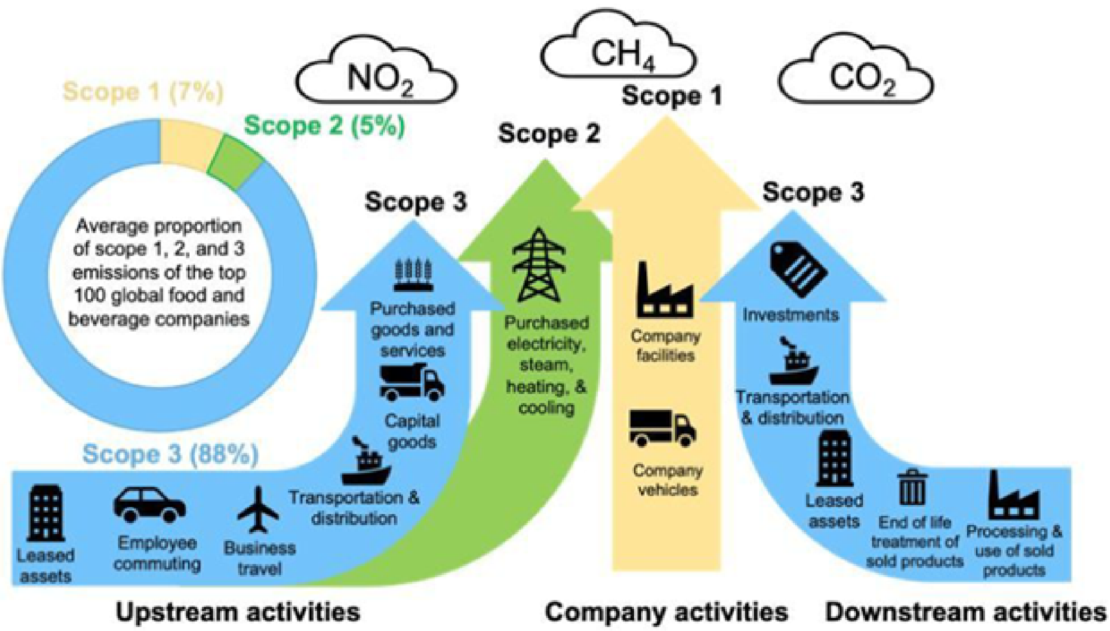
Scope 1: Direct emissions from company activities, like company vehicles.

Scope 2: Indirect energy emissions, specifically, purchased electricity, heat, or steam. These emissions occur at the facility (power plant) where the energy is produced and not where it is consumed.

Scope 3: Other indirect emissions from upstream and downstream activities that deliver a good or service to consumers (e.g., purchased raw materials and services).

Figure 2 illustrates the distribution of greenhouse gas emissions of the Top 100 food and beverage companies in the U.S. According to Reavis et al. (2022), 88% of the total greenhouse gas emissions from this segment are in the form of Scope 3 emissions. These emissions are indirect, meaning they are out of the direct control of the company. So how will a company meet their "net-zero" goals, when most of their emissions are out of their direct control? This is where both carbon offset markets and carbon insetting come into play. Companies are utilizing both strategies to meet their "net-zero" goals. Learn more about carbon offsets and inset strategies here.

Figure 2. Distribution of emissions of the Top 100 food and beverage companies (Reavis et al., 2022)



According to a new California State Law (California SB 253), by 2026, companies operating in California with an annual revenue of +$1B will have to disclose their greenhouse gas emissions for Scope 1 and Scope 2. By 2027, companies will have to disclose greenhouse gas emissions across their entire supply chain, including Scope 3. Interpretation of "operating in California", the reporting measures required, and penalties for violating the law, are still under debate. Regardless, state policies such as these add to the reasons why companies care about ESG reporting.

While ESG has been popular in the past several years, it is crucial for companies to adapt and evolve their strategies to address the growing expectations of stakeholders. These expectations can change based on political, economic, and consumer pressures and will evolve over time. By considering environmental stewardship, social responsibility, and strong governance, companies can build trust with stakeholders and enhance their reputation. Achieving a "net-zero" emissions goal requires a clear understanding of a company's environmental impact. By measuring and reporting greenhouse gas emissions, companies can establish a baseline and track progress towards their sustainability objectives. This data-driven approach is essential for implementing effective strategies to reduce emissions and minimize their environmental footprint. By integrating ESG principles into all aspects of their operations, companies can not only mitigate their environmental impact but also be transparent regarding their exposure to environmental risks.

References

Governance & Accountability Institute, Inc. (2024). "2023 Sustainability Reporting in Focus." Available Online: https://www.ga-institute.com/research/research/sustainability-reporting-trends/2023-sustainability-reporting-in-focus/

Reavis et al., (2022). "Evaluating the landscape of greenhouse gas emissions and climate mitigation goals of the global food and beverage sector." Frontiers in Sustainable Food Systems. DOI: http://doi.org/10.21203/rs.3.rs-611025/v1

U.S. Environmental Protection Agency (2025). "Importance of Methane". Available online: https://www.epa.gov/gmi/importance-methane

Resources

Greenhouse Gas Protocol - https://ghgprotocol.org/
Science Based Target Initiative - https://sciencebasedtargets.org/

Funded by USDA-NIFA-Southern Risk Management Education Center through the Project Titled "Preparing Farmers and Ranchers for the Evolution of Carbon markets."

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