

Cost Risks and Brand Value Opportunities for FMCG Enterprises under the ESG Framework: A Case Study of Unilever

Huining Yang*

School of Business, Tianjin University of Finance and Economics, Tianjin, 300222, China

*yanghuining202309@163.com

Abstract

Under the background of the deepening global sustainable development concept and the "dual carbon" strategic goal, ESG (Environmental, Social and Governance) has become the core framework for evaluating corporate sustainable development capabilities. This study takes Unilever, a benchmark enterprise in the global FMCG industry, as a case study, employing case study method and literature analysis to systematically explore the cost risk challenges and brand value enhancement opportunities faced by FMCG enterprises under the ESG concept. The findings reveal: First, ESG practices exhibit a structural characteristic of "short-term increase and long-term decrease" in corporate costs; Second, ESG performance significantly enhances brand value through three pathways: supply chain discourse power enhancement, reputation capital accumulation, and consumer identification; Third, enterprises need to seek dynamic balance between financial sustainability and social sustainability to avoid the erosion of brand trust caused by "greenwashing" controversies. This study enriches the theoretical research on the relationship between ESG and corporate value, and provides practical guidance for FMCG enterprises to formulate sustainable development strategies.

Keywords

ESG Concept; FMCG Industry; Cost Risk; Brand Value; Unilever.

1. Research Background and Significance

In 2004, the United Nations Global Compact formally introduced the concept of ESG (Environmental, Social, and Governance), aiming to establish a comprehensive framework for evaluating corporate sustainability performance. In recent years, with the intensification of global climate change, the prominence of social inequality issues, and the frequent occurrence of corporate governance scandals, ESG has evolved from an optional corporate initiative into a fundamental prerequisite for survival and long-term development. At the international level, the European Union officially implemented the Corporate Sustainability Reporting Directive (CSRD) in 2024, mandating large enterprises to disclose ESG-related information. At the domestic level, China's "dual carbon" targets have provided clear policy guidance for corporate ESG practices. Statistics indicate that more than 57% of listed FMCG companies in China have published ESG reports.

As an industry closely connected to consumers' daily lives, the FMCG sector carries particular strategic significance in ESG implementation. On the one hand, FMCG enterprises are heavily involved in packaging consumption, energy use, and supply chain management, resulting in substantial environmental impacts. On the other hand, new mainstream consumer groups-Generation Z and Millennials-tend to prefer brands that embody sustainable development values.

Unilever, as a benchmark enterprise in the global FMCG industry, owns approximately 400 brands worldwide, operates in more than 190 countries, and ranked 210th among the Fortune

Global 500 in 2024. Unilever has long regarded ESG as the core of its corporate strategy, from the “Sustainable Living Plan” launched in 2009 to the “Compass Strategy” introduced in 2024, consistently emphasizing that “sustainable growth equals long-term competitive advantage.” However, starting in 2024, Unilever postponed or adjusted certain environmental targets, triggering extensive discussions regarding a “pragmatic shift” in its ESG strategy. This phenomenon reflects the inherent tension between cost pressures and value creation in ESG practices. This study therefore takes Unilever as a representative case to systematically analyze cost risks and brand value opportunities for FMCG enterprises under the ESG framework.

2. Research Status at Home and Abroad

2.1. Domestic Research Status

In recent years, domestic scholars have increasingly examined the relationship between ESG performance, supply chains, and brand value. Regarding ESG and supply chain dynamics, Kang Shufang argued that ESG performance enhances corporate control over supply chains through the moderating effect of supply chain concentration[1]. Zhang Xia et al. found that ESG performance promotes high-quality manufacturing development via supply chain bargaining power and relationship stability[2]. Song Can et al. demonstrated that higher ESG ratings facilitate supply chain spatial expansion[3]. Chen Qi and Wei Guojing suggested that ESG practices significantly improve supply chain efficiency by strengthening corporate reputation, financial capacity, and product advantages[4]. Li Yuhong indicated that ESG performance indirectly enhances financial performance by improving supply chain resilience[5].

Regarding ESG and brand value, Liu Huijuan, using Tsingtao Brewery as a case study, showed that strong ESG performance attracts external investment and enhances firm value[6]. Zhou Ziwei and Liu Xiaoxiao empirically confirmed a positive correlation between ESG performance and brand value, with ESG ratings enhancing brand value through mediating channels such as R&D investment, green innovation, information transparency, and corporate reputation[7,8].

2.2. Overseas Research Status

The concept of ESG originates from the evolution of corporate social responsibility (CSR) theory. Scholars such as Barnett et al. and Huang regard ESG as a modern extension of stakeholder theory[9,10]. In studies on ESG and corporate innovation, Padgett and Galan found that R&D investment significantly encourages firms to assume greater social responsibility, while Ho et al. demonstrated that positive CSR signaling enhances R&D valuation[11,12]. Regarding ESG and financial performance, Velte found a significant positive effect of ESG performance on financial growth[13]. In terms of ESG and competitive advantage, Chouaibi et al. argued that firms with superior ESG performance establish sustainable competitive advantages through green innovation[14].

Despite these contributions, existing research exhibits several limitations: first, insufficient exploration of the cost implications of ESG practices, particularly the transformation mechanisms between short-term cost pressures and long-term cost efficiencies; second, a lack of industry-specific research on ESG in the FMCG sector; and third, inadequate analysis of the balance mechanisms between ESG costs and value creation. Addressing these gaps, this study conducts a systematic analysis of cost risks and brand value opportunities for FMCG enterprises under ESG, using Unilever as a case study.

3. Case Analysis of Unilever’s ESG Practices

Unilever is a multinational consumer goods company with nearly a century of history, founded in 1929 and headquartered in London, UK. Its well-known brands include OMO, Dove, Clear,

and Wall’s. The ESG evaluation framework adopted in this study covers three dimensions: Environmental (E), Social (S), and Governance (G).

3.1. Environmental (E): Resources, Energy Consumption, and Cost Impacts

3.1.1. Plastic and Packaging Management

Unilever’s environmental governance strategy is centered on the concept of a “closed loop.” The company initially set a goal to achieve 100% recyclable or compostable plastic packaging by 2025, later postponed to 2030 and 2035 due to technological constraints and cost pressures. Despite these adjustments, Unilever has made notable progress in packaging innovation. By applying 3D printing technology to optimize packaging design, delivery lead times were reduced by six weeks and costs were lowered by up to 90%.

3.1.2. Climate Action and Carbon Emission Reduction

Unilever has committed to achieving net-zero emissions across its entire value chain by 2039. In terms of energy transition, the company has adopted solar power at its Mexico plant and established a “Lighthouse Factory” in Hefei, significantly reducing energy consumption through intelligent manufacturing. Although these investments increase upfront capital expenditure, they contribute to long-term energy cost savings and mitigation of carbon tax risks.

3.1.3. Sustainable Agriculture and Raw Material Procurement

Unilever promotes a “Sustainable Agriculture Program,” requiring 95% of key crops to be sourced sustainably. In collaboration with Evonik, the company developed rhamnolipid surfactants derived from renewable materials, replacing petroleum-based ingredients and significantly reducing carbon footprints. Moreover, the “Energy Cane” project is expected to cover 65% of revenues related to relevant products by 2030.

3.1.4. Water Resource Management

By optimizing water-use efficiency, Unilever reduced water consumption per unit of production by 40% compared to 2008. The company also implemented water-saving education programs in local communities. Effective water management not only lowers operational costs but also enhances resilience in water-stressed regions.

Table 1. Summary of Cost Impacts in the Environmental Dimension

| Impact Direction | Specific Performance | Cost Impact | Impact Direction |
|--|--|--|--|
| Sustainable Procurement of Raw Materials | Utilizing sustainable palm oil, pulp and recycled plastics | Short-term impact: Rising procurement costs Long-term impact: Mitigated supply disruption risks and enhanced reputation risk resilience | Sustainable Procurement of Raw Materials |
| Packaging & Carbon Reduction Investment | Promoting recycled packaging, reducing single-use plastics, and procuring renewable energy | Increased R&D and equipment transformation expenditure, leading to a rise in fixed costs | Packaging & Carbon Reduction Investment |
| Supply Chain Tracing & Certification | Establishing a supplier ESG review system | Higher compliance costs and information management costs | Supply Chain Tracing & Certification |

As shown in Table 1, ESG-driven environmental initiatives lead to short-term cost increases—such as premiums for sustainable raw materials, R&D investment in green packaging, and renewable energy equipment expenditure—but result in long-term cost reductions through improved energy efficiency, enhanced supply chain stability, and avoidance of regulatory and carbon-related risks.

3.2. Social (S): Human Capital, Supply Chain, and Reputational Value

3.2.1. Employee Rights and Living Wages

Unilever’s social responsibility framework emphasizes “inclusive growth.” The company pledged to provide living wages to employees of at least 50% of its direct suppliers by 2026 and has implemented policies on fair wages, diversity, and inclusion. Initiatives such as female employment programs in India increased labor costs but significantly reduced turnover rates and labor dispute risks.

3.2.2. Supply Chain Transparency and Fair Trade

Unilever requires suppliers to comply with the principles of the UN Global Compact and employs blockchain technology to enhance traceability of commodities such as palm oil and tea. In Africa, the company cooperated with coffee farmers under fair trade models, increasing farmers’ incomes by 30% and strengthening brand trust.

3.2.3. Community Development and Philanthropic Programs

Through its foundation, Unilever supports education, healthcare, and environmental protection initiatives. In the Brazilian rainforest, the company helped indigenous communities establish sustainable rubber harvesting systems, combining biodiversity conservation with economic benefits. Hygiene education programs further enhanced consumer goodwill and reinforced Unilever’s socially responsible brand image.

Table 2. Summary of Cost Impacts by Social Dimensions

| Impact Direction | Specific Performance | Cost Impact |
|-------------------------------------|--|---|
| Employee Compensation and Safety | Implementation of Fair Wage and Diversity & Inclusion Policies | Increased labor costs, but reduced turnover rate and labor disputes |
| Community and Supplier Cooperation | Support for Smallholder Farmer Training and Inclusive Growth | Increased training and cooperation expenditures, but improved supply resilience |
| Brand Reputation and Consumer Trust | Launch of Fair Trade and Low-Carbon Products | Helps enhance brand premium and market share, offsetting part of the costs |

As illustrated in Table 2, social initiatives raise short-term labor and collaboration costs but generate long-term benefits by improving employee retention, supply chain resilience, and brand premium capacity.

3.3. Governance (G): Disclosure, Incentives, and Risk Control

3.3.1. Organizational Structure and Strategic Focus

Unilever’s governance reforms emphasize strategic focus and institutionalization of ESG. In 2022, the company restructured its operations into five business divisions and reduced senior management by 15%, improving decision-making efficiency. An ESG Committee oversees the execution of sustainability targets.

3.3.2. ESG Performance Management System

Unilever prepares ESG reports in accordance with international standards such as GRI, TCFD, and CSRD, and enhances credibility through third-party audits, maintaining industry-leading disclosure transparency.

3.3.3. Executive Incentives Linked to ESG Performance

Executive compensation at Unilever is tied to ESG performance, encouraging management to balance short-term profitability with long-term responsibility and ensuring effective internal implementation of ESG strategies.

3.3.4. Compliance Management and Risk Prevention

The company strengthens supply chain compliance audits to prevent corruption and legal risks, requiring suppliers to adhere to strict ethical codes and conducting regular compliance reviews.

Table 3. Summary of Cost Impacts by Governance Dimensions

| Impact Direction | Specific Performance | Cost Impact |
|--|---|---|
| Information Disclosure and Reporting | Compiling ESG reports in accordance with GRI, TCFD and CSRD standards | Increased disclosure costs (data collection, external audit) |
| Executive Incentives and Compliance System | Incorporating ESG indicators into salary assessment | Rising internal system construction costs, with a more robust incentive mechanism |
| Anti-corruption and Compliance Risk Prevention | Strengthening supply chain compliance review | Increased audit and legal compliance expenses |

As shown in Table 3, governance-related ESG practices increase short-term disclosure, audit, and institutional costs, while generating long-term benefits by enhancing investor confidence and reducing financing costs.

3.4. Cost Risk Analysis: Short-Term Costs vs. Long-Term Risk Reduction

3.4.1. Structural Characteristics of Cost Impacts

Based on an integrated analysis of the environmental, social, and governance dimensions, the impact of ESG practices on Unilever’s costs exhibits a structural pattern of “short-term cost increases and long-term cost reductions.”

The main sources of short-term cost increases include: price premiums for sustainable raw material procurement and R&D investment in green packaging in the environmental dimension; implementation costs of fair wage policies and supplier training expenditures in the social dimension; and costs related to ESG report preparation and auditing in the governance dimension.

The primary pathways for long-term cost reductions include improvements in energy and resource efficiency (with intelligent manufacturing reducing energy consumption), enhanced supply chain stability (as sustainable procurement mitigates the risk of supply disruptions), and savings in risk-avoidance costs (by proactively complying with environmental regulations to avoid penalties).

3.4.2. Bidirectional Characteristics of Risk Impacts

The impact of ESG practices on Unilever’s risk exposure demonstrates bidirectional characteristics. While long-term operational risks-such as supply chain risk, regulatory risk, and reputational risk-are reduced, the firm faces short-term financial pressure, market skepticism, and risks associated with the execution of transformation initiatives.

3.4.3. Comprehensive Assessment

Table 4. Unilever ESG Comprehensive Assessment

| Dimension | Cost Impact | Risk Impact | Long-term Effect |
|---------------|-------------------------------------|--------------------------------|------------------------------------|
| Environmental | ↑Short-term investment costs | ↓Compliance and carbon risks | Energy savings and cost recovery |
| Social | ↓Labor and cooperation expenditures | ↓Reputational and supply risks | Enhanced brand loyalty |
| Governance | ↑Compliance and disclosure costs | ↓Legal and ethical risks | Improved capital market confidence |

As illustrated in Table 4, The overall impact of ESG principles on Unilever displays a structural pattern characterized by short-term cost increases, long-term risk reduction, and value creation. The core challenge lies in achieving a balance between financial sustainability and social sustainability. In the initial stage, ESG strategy implementation involves upfront investment in sustainable technologies and processes, thereby increasing costs. Over time, however, improvements in efficiency and innovation can reduce costs and effectively attract sustainability-conscious consumers, opening up new revenue sources.

3.5. Pathways for Brand Value Enhancement: Brand Premium, Consumer Identification, and Capital Market Evaluation

3.5.1. Differentiated Positioning and Brand Premium

As illustrated in Figure 1, Unilever has clearly positioned “sustainability/responsibility” as the core of its business strategy. During the implementation of the Sustainable Living Plan, “Sustainable Living Brands” grew 46% faster than other brands and accounted for 70% of total revenue growth, providing strong evidence that ESG positioning significantly enhances brand premium capability.

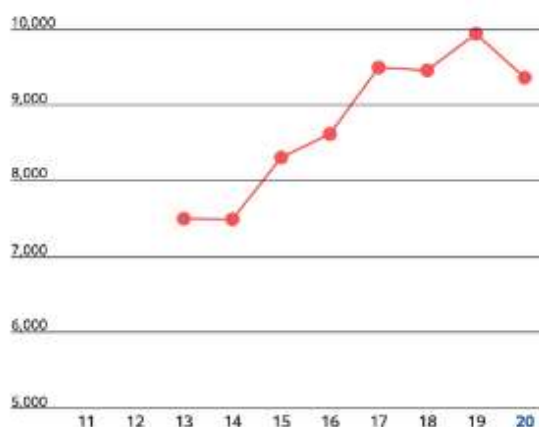


Figure 1. Evolution of Unilever’s Operating Profit (2013–2020)

3.5.2. Development of New Market Opportunities

ESG positioning has enabled Unilever to attract younger generations and value-driven consumer segments. Former CEO Paul Polman stated: “Companies positioned around greater sustainability and inclusiveness are more likely to attract investors, particularly Generation Z and millennial investors.”

Moreover, ESG practices have opened up premium and niche market opportunities for Unilever. An increasing number of consumers are willing to pay for sustainability labels and brand narratives, thereby creating new revenue streams for the firm.

3.5.3. Enhancement of Brand Reputation and Competitive Barriers

A strong reputation can function as a competitive barrier within the industry. Active ESG engagement helps Unilever prevent brand damage arising from being passively labeled with negative attributes, thereby strengthening brand trust and brand protection mechanisms.

3.5.4. Innovation and Supply Chain Opportunities

ESG orientation has stimulated innovation in products, packaging, and supply chains. Through measures such as logistics optimization, green packaging, concentrated formulations to reduce waste, and sustainable raw material sourcing, Unilever has achieved both cost savings and product differentiation.

For instance, the rhamnolipid surfactants jointly developed with Evonik replace petroleum-based ingredients with renewable materials, reducing carbon footprints while providing new directions for product innovation. Such innovations function both as long-term cost-saving mechanisms and as tools for product differentiation.

3.5.5. Capital Market Advantages

Brand value is reflected not only in consumer markets but also in the firm’s reputation among investors and the general public. Unilever’s ESG practices have strengthened its positioning as a “leading brand” in investor relations, media exposure, and supply chain ecosystems.

As shown in the Figure2, from a capital market perspective, Unilever’s stock price has exhibited a long-term upward trend from 1990 to 2024, while operating profits remained stable and growing between 2013 and 2020. These trends indicate that ESG practices contribute positively to long-term value creation.

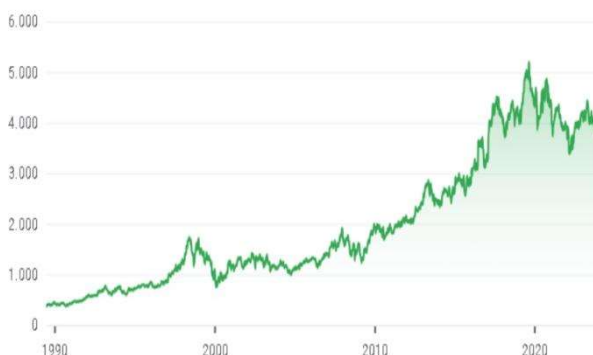


Figure 2. Unilever’s Stock Price (1990–April 2024)

3.5.6. Comparative Analysis with Competitors

To better understand the competitive advantages of Unilever’s ESG practices, a comparative analysis is conducted with its major competitors, Colgate-Palmolive and Procter & Gamble:

Table 5. Unilever ESG Ratings Compared with Other Companies

| Company | ESG Rating | Environmental Score | Social Score | Governance Score |
|------------------------|------------|---------------------|--------------|------------------|
| Unilever (UL) | AAA | 5.2 | 6.3 | 6.4 |
| Colgate-Palmolive (CL) | AA | 5.7 | 4.7 | 7.0 |
| Procter & Gamble (PG) | AA | 5.7 | 3.5 | 6.3 |

The comparison shows that Unilever holds a relative advantage in the social responsibility dimension, consistent with its “inclusive growth” strategic framework, while there remains room for improvement in the intensity of environmental execution.

4. ESG Mechanisms and Industry Implications

4.1. Mechanisms of ESG Impact

Based on the Unilever case, this study reveals the mechanisms through which ESG principles affect cost risks and brand value in FMCG enterprises.

Cost impact mechanism: The effect of ESG practices on corporate costs follows a dynamic trajectory of “short-term investment–capability accumulation–long-term return.” In the short term, sustainable procurement, green technology R&D, and compliance disclosure increase costs. In the medium term, organizations transform ESG investment into operational efficiency and risk avoidance capabilities through learning and capability building. In the long term, improvements in energy efficiency, supply chain stability, and risk reduction enable cost recovery and value creation.

Risk impact mechanism: ESG practices reduce long-term operational risks through three channels: the supply chain risk pathway, in which sustainable procurement reduces disruption and compliance risks; the regulatory risk pathway, in which proactive responses to environmental regulations lower the likelihood of penalties; and the reputational risk pathway, in which responsible operations enhance brand resilience and crisis recovery capability.

Brand value impact mechanism: ESG practices enhance brand value through consumer identification, brand premium, and capital market evaluation. ESG attributes strengthen emotional connections and loyalty among consumers; sustainable positioning supports premium pricing in high-end markets; and strong ESG performance boosts investor confidence and reduces financing costs.

4.2. Industry Implications

Unilever’s experience offers the following insights for the FMCG industry:

(1) Emphasize ESG practices to enhance corporate reputation.

A strong reputation can become a competitive barrier, especially in the consumer goods sector, where brand trust is costly and slow to rebuild once damaged. Active ESG engagement helps mitigate risks associated with negative labeling, such as “plastic pollution” or “human rights controversies.”

(2) Seize ESG opportunities.

As consumers increasingly prioritize environmental protection, social responsibility, and brand values, ESG positioning enables firms to command price premiums and enhance brand loyalty, allowing them to benefit not only from product functionality but also from “products plus values.”

(3) Highlight ESG investment in brand communication to enhance premium capability.

Emphasizing ESG and sustainability investments in supply chains, materials, packaging, and communities strengthens high-end brand images and supports differentiation through innovation, thereby enabling premium pricing.

(4) Ensure the authenticity and execution capability of ESG commitments.

The Unilever case illustrates that excessive or poorly implemented ESG commitments can undermine brand trust. ESG communication must be substantiated by concrete actions rather than exaggerated claims.

(5) Deeply integrate ESG into business operations.

Unilever’s experience demonstrates that ESG is not a cost burden but a key driver of brand value reconstruction and long-term competitiveness. Only by embedding ESG into core operations can firms achieve a sustainable balance between costs and value creation.

5. Main Conclusion

Based on a systematic analysis of Unilever's ESG practices, this study draws the following conclusions:

(1) ESG practices exhibit a structural pattern of short-term cost increases and long-term cost reductions in FMCG enterprises.

Sustainable procurement and green transformation investments (environmental dimension), fair wages and supply chain compliance (social dimension), and disclosure and auditing (governance dimension) increase short-term costs. However, through technological innovation, economies of scale, and intelligent management, these investments translate into long-term efficiency gains and cost savings.

(2) ESG performance significantly enhances brand value through supply chain bargaining power, reputational capital accumulation, and consumer identification.

Unilever's sustainable living brands grew 46% faster than other brands and contributed 70% of revenue growth, demonstrating the positive effect of ESG on brand value.

(3) Enterprises must dynamically balance financial and social sustainability to avoid erosion of brand trust due to "greenwashing" controversies.

Unilever's adjustment of environmental targets in 2024 highlights the risks of overly aggressive ESG commitments that exceed execution capacity.

(4) ESG capability constitutes a strategic resource and a key source of differentiated competition and long-term value creation.

From a resource-based view, sustained ESG investment has enabled Unilever to accumulate unique sustainability capabilities that are valuable, rare, difficult to imitate, and non-substitutable.

(5) The quality and credibility of ESG disclosure directly affect brand trust and capital market evaluation.

High-quality ESG performance and transparent disclosure send positive signals to stakeholders. However, greenwashing controversies underscore the necessity of ensuring authenticity in ESG signaling.

6. Summary

Taking Unilever as a case study, this research systematically examines cost risks and brand value opportunities faced by FMCG enterprises under the ESG framework. The findings indicate that ESG practices follow a dynamic trajectory of "short-term investment, capability accumulation, and long-term return," characterized by short-term cost increases and long-term cost reductions. ESG performance significantly enhances brand value through strengthened supply chain bargaining power, reputational capital, and consumer identification. Unilever's experience demonstrates that ESG is not a cost burden but a critical driver of brand value reconstruction and long-term competitiveness.

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