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SUSTAINABLE DEVELOPMENT: A LITERARY EXAMINATION OF ENVIRONMENT, SOCIAL AND GOVERNANCE

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Abstract:

Environmental, Social, and Governance (ESG) has a vital role in influencing the performance of the organisations with respect to environmental and economic factors, particularly in relations to investments and sustainability. The article analyses the ESG factors and its role in economic performance, environment, corporate social responsibility, governance, gender, ESG disclosure, risk, financial performance, digital transformation etc. and their impact on Sustainability. The literature summary provided in the review offers valuable insights that can contribute to and guide future research on Environmental, social, and governance (ESG) influencing corporate investments plus its sustainability. The study proposes to summarize the research studies on ESG factors and attempts to identify future directions of research in ESG.

Key words: ESG, financial performance, gender, value, green consumerism

Introduction:

Sustainable Development has become the buzz word and a global trend focusing on the sustainable development as a priority of the European Union Strategy in 2020. Sustainable development advocates the development and implements of management tool and methods that facilitates the achievement of the environmental, social and governance goals abbreviated as ESG. The concept of ESG gained a popularity among the investors who are focusing on the green and social investments and are inclined to invest in enterprises that function on the ESG principles. Companies operating on the principles of ESG are found to be more sustainable, have resources for long term development and optimizing their activities. Companies with high ESG ratings are found to financially perform better (Alexandra A. Egorovaet al. 2022).

ESG has become the key focus of research in the field of management with the international focus on sustainable development (Paradis & Schiehll, 2021; Finger & Rosenboim,2022). Companies face insufficient capabilities in addition to high cost to adopt ESG practices (Cong et al., 2023). Li et al. (2020) some enterprises with high ESG performance may not genuinely focus on social responsibility activities, might be engaged in these practices for reputational gain often referred to as "greenwashing." Regulators and investors face difficulties in obtaining data on ESG to make decisions (Zhang and Liu, 2022).

Wan, Guochao et.al (2023) identified three identical trends in research, factors influencing and economic consequences of ESG in emerging markets, ESGs influence on capital market and researched the information disclosure on ESG and ESG rating.

The international Resource Panel (IRP 2020) in their report have emphasised the need for reduction in the use of global resources to achieve environmental and socio- economic goals. There is no unified indicators to measure and evaluate the compliance of the ESG principles adopted by the companies with respect to financial sustainability (Garcia, A.S.,et.al, 2017, Nedosekin, A.O., et. al 2019).

Concepts and theories

Li, T.-T.et. al (2021) in his study has presented the ESG framework and explains the scope of ESG. Environmental, social factors and governance matters may positively or negatively influence the financial performance, financial soundness of an organisation, or individual are termed as environmental dimension, social dimension and Governance dimension respectively.

Stakeholder theory is a management and ethical approach that suggests businesses should consider the interests and well-being of all stakeholders leading to greater growth and welfares for companies (Teplova et.al., 2022). Institutional and legitimacy theories advocate performance of the firms improved while enhancing social practices (Beddewela and Fairbrass, 2016; Velte, 2017)

The perspective of stakeholder theory, is Corporate Social Responsibility practices that has an implication on environmental factors, social factors, and governance factors (ESG) issues, support businesses to improve their stakeholders relations (Russo and Perrini, (2010);Bitektine and Haack(2015); Tu and Huang (2015)).

The resource allocation theory advocates the businesses to determine the process of resource allocation to activities keeping their cost nominal (Li and Cui, 2008). This approach enables the firms to augment their practices towards ESG (Ruf et.al.,2001) which in turn increases the image of the firm and the trust of the customers (Orlitzky et al., 2003).

Need for the study

The importance and the relevance of the ESG is gaining importance and attention globally, however the study on the growth and implementation of ESG in the industry are relatively few. Companies with green practices, governance and social responsibility are looked upon with pride, while companies operating in the mining industries, financial services look upon to the importance of ESG risk while companies operating in the IT sector are yet to adopt the practice of ESG effectively.

The study examines the literature on ESG, identifies the role of ESG issues on financial outcomes and sustainable development of organisations. Further the article summarises the earlier researches on ESG carried out in various countries of the world and findings made by researchers on the various factors of ESG dimensions and their implication of factors on Sustainable development.

The earlier studies on ESG and sustainability were identified and the articles were reviewed and the finding of these studies were summarised. The study carried out by the research across various countries were reviewed and summarised. Similarly, studies on ESG pertaining to industries like mutual funds, IT, the effect of digital transformation of the companies, financial performance and image, green consumerisms etc were reviewed and presented in the article.

Literature Review

The significant increase in corporate ESG disclosures is driven by various factors, factors to meet stakeholder wants and enhance accountability of the corporate (Eccles et al., 2014; Tamimi and Sebastianelli, 2017). Ullmann (1985) and Orlitzky et.al. (2003) validated that performance indicators based on the market are superior to indicators that are accounting-based since it focuses on a organisations capability to generate earnings in the future relative to historical performance. The lack of disclosure may have various consequences, including immoral behaviour, manipulation, and doubt in the integrity of exchanges and can cause significant costs for firms, economy and users of information (Demise 2006).

(Malik, 2015) The decision makers consider ESG performance as a method to enhance the value of the firm. Eccles et.al. (2014) opinions unveiling information on ESG to stakeholders will help organisations to appeal to enduring investors. Rezaee (2016) has confirmed that the inclusion of employee performance as a part of management strategy can generate value.

Examining the previous studies shows that the sustainability is vital for solving and addressing the problems that are emerging. Investing and developing sustainable business requires a triple approach integrating the socio economic and environmental matters (Rajesh 2020). Policy on ESG can have a significant impact on total corporate performance, particularly in investments for sustainable business (Husted and de Sousa-Filho (2017)).

ESG and Organisation Performance

Smith et al. (2007) investigated relations between environmental revelation and the performance of organisations in Malaysia, and the results revealed a negative effect of environmental disclosure on firm’s performance. Barnett & Salomon (2012) explored the relations among social performance of the corporate and its performance, the results exhibiting a nonlinear relation among them.

Studies by Han et al. (2016) explored association among ESG practices and firms performance on a sample selected from Korean firms for a period between 2008 and 2014, with mixed results, as performance of environmental and governance correlates with indicators of firms performance, whereas social performance not showing significant proof of firms performance indicators.

The examination of the companies listed on the FTSE350 index for the years 2005 to 2009 for linkage between environmental, social disclosures and companies’ performance the results showed that companies with resources and disclosures achieve superior performance (Qui et al. 2016).

Studies carried out by (Sila & Cek, 2017) shows a significant environmental performance, economic improvement shows a positive effect, weak correlation between economic activity and governance.

The link among social responsibility with value of the firm through testing on a sample of firms engaged in manufacturing in china, and the findings showed social responsibility to be related with the value of the firm (Hu et al. 2018). There is a strong association among governance disclosures with Environmental, Social, and Governance (ESG) reporting and analyst forecast accuracy, while a similar correlation is not found for environmental disclosures (Bernardi and Stark, 2018).

The association between social performance with organisation performance in 314 UK-listed firms and the findings reveal a nonlinear link existing between social and organisations performance (Adegbite et al. 2019). Investigation on the influence of ESG on organisations performance in UK corporations from 2002 to 2018 and revealed a positive influence significantly on firm's performance (Ahmad et al. (2021)).

Effect of ESG accountability on firms' performance in 311 Chinese-listed corporations and its outcomes showed an effect of ESG fulfilment on performance of the firms. Firms Performance negatively impacted by ESG fulfilment in short period and a firm's performance is positively and significantly impacted by ESG fulfilment over a long period (Chen et al (2021)).

The linkage among ESG performance and firm's performance of 150 firms operating in US for a period and the findings are found to positively influence of ESG on the performance on firm's (Ademi and Klungseth 2022).

The study on impact of disclosure of ESG information on firm's performance with a sample of 124 firms between 2012 and 2019 and the results exhibited a positive impact on firms' performance Al Amosh et al. (2022). Buallay & Al Marri (2022) examined the effect of disclosing ESG information on the performance of telecommunication sector and IT sector, including 1844 samples collected from 41 nations spread over a period from 2008 to 2017. The study revealed a negative impact of ESG disclosure on marketplace performance, with insignificant impact on firm's performance.

Kalia & Aggarwal (2022) inspected the effect of practices adopted in ESG on the performance of healthcare organisations. The study showed a positive effect on performance of the organisations operating in established a negative impact on firms operating in evolving economies.

The effect of ESG activities on performance of firms in Indonesian firms and the effects showed that firm's performance constantly effects ESG performance and in turn ESG performance intermediates the firm's performance and value of the firm (Nurim et al. 2022).

The influence of ESG practices on firm's outcome of financial companies operating in Denmark, Finland, Sweden, and Norway. The ESG practices were found to have a positive influence on firms' performance for return on assets, further it showed a negative influence on financial performance with respect to ROI (Return on Investment), return on equity and earnings per share Rahi et al. (2022).

Analysing the impact of ESG information disclosure with respect to financial performance in listed Italian corporations between the periods 2011 to 2020, found ESG disclosure to positively influence firms' performance Carnini Pulino et.al (2022).

Ahmad H et al. (2023) reported that the disclosure on environmental, economic and social sustainability helps in strengthening performance and sustainability of the business. A positive impact on the ESG disclosure is found in case of independent governing body. The study stated that a diversion potential is observed in ESG investments during Covid-19. Social and environmental performance was observed to possess a significantly positive relations with sustainability, economy and value for the society and are found to be dependent mutually.
Habib, Ahmed & Mourad, Nahia. (2023) explored the impact of individual and total ESG practices, crisis of coronavirus on organisation performance in US with a sample of 406 firms. Results revealed that crisis of coronavirus negatively impacted firms performance measures.

ESG and Financial Services

Socially Responsible Investing (SRI) has become a trend and transforming the landscape of the mutual fund business and a topic of financial research. Socially Responsible Investing is a process of investment that comprises the companies of high Corporate Social Responsibility (CSR), evaluated on the indicators of environment sustainability, social impact and governance (Renneboog, L.et.al 2008)
ESG risk management is a strategic imperative and not just a compliance, companies that manage ESG risks attracts more investors (Khan, M.H.U.Z2009), improved financial performance and enhance overall competitiveness(Li, Z et.al2016).
Socially Responsible Investment impacts the prediction of returns on stock and additionally the extent of information disclosure on the sustainable development of the company affects the company's market value (Plumlee, M.2015), further several studies have shown that ESG impacts company value (Fatemi, A 2017).

ESG and IT

Alexandra A. Egorova et al (2022) found that companies with better operating performance and financial results are found to have high ESG ratings. The analysis of ESG components in the IT companies revealed that the E component and the S component to be weak while G component was found to be average. The author studies the association among the ESG rating and companies market value.

Karminsky Alexander Markovich et.al (2022) studied the influence of environmental, social and corporate factors on monetary performance of companies operating in information technology sector. Authors identified the important practices in sustainable development to increase the monetary performance of the companies in IT sector. Data from 43 companies, analysed it and found increase in environmental and social score were found to significantly influence monetary performance of the company.

ESG and Digital transformation

Fu T & Li J (2023) examined the consequence of ESG on corporate financial performance moderated by digital transformation. A sample of A-share listed companies in China and the results drawn with the use of Regression Analysis revealed a significant and positive impact on corporate financial performance driven by digital transformation. The results of Heterogeneity test showed that there is an enhanced consequence of ESG on financial performance significantly for companies that are non-state owned and insignificantly on state owned companies.

Companies shift adoption of digital models of production from traditional models reduces cost, increases accountability efficiency and ESG performances (Bhandari et al., 2022).

The value for enterprises due to digital transformation extends beyond progresses in production technology; it includes a wide range of benefits that influence many aspects of a business, including the environment (E), society(S), and corporate governance (G) (Shimizu,2020).

Digital transformation on one hand drives technological innovation, focusing on green technology, nurturing sustainable practices. On the other hand, it minimizes enhances transparency, and reduces costs, contributing to efficient and trustworthy business operations. This combined impact organisations for sustainable growth and flexibility in digital and environment conscious business (Gouvea et al., 2022).

ESG and Image

Organisations disclosure on the information pertaining to ESG create a good image on corporate social responsibility and strengthen the relationship of the company with the stakeholders (Lian et al., 2023).

Green and environment friendly corporate image by prioritizing sustainability and corporate development over a long period can yield returns in long-term for companies. (Gao & Han, 2020).

ESG and Financial performances

Companies with high ESG performance are found to attract a more diverse investors compared to low ESG performance (El Ghoul et al., 2011). Poor environmental performance by companies can lead to low credit ratings and low yields (Zhang et al., 2022). Friede et al.,2015 analysed and identified a positive connection among ESG and the financial performance. A meta-analysis carried out by (Orlitzky et al., 2003) exhibited a positive relation among social, environmental commitment and financial performance and business sustainability. ESG performance influences the risks faced by enterprises, with a noticeable impact on product differentiation. (Starks, 2009).

ESG and Green Consumerism

ESG performance acts as an influencing factor between R&D investment and its outcomes in relation to green innovative performance. (Xu et al., 2021). Addressing sustainable development and green consumerism is the prime importance of global business investment and sustainability (Nosratabadi et al., 2019).

Gender Diversity

Gender Diversity Board (GDB) vitally shape various aspects like the association among gender and equity risk, financial performance and environmental, social, and governance (ESG) reveal (Jizi and Nehm,(2017); Wasiuzzaman and Wan Mohamman,(2020)). Earlier studies show a positive, indecisive and negative relations among gender diversity board, organizational performance, and financial risk (Sila et al. (2016); Haque and Ntim (2018); Perryman et a;.(2016)).

Discussion

The study attempted to identify and discuss the ESG factors that impact the decisions of investments and sustainability. ESG performance is an important factor in creating environmental awareness and commitment towards the community for all organisations. Investors look for ESG performance of company since companies with low scores face high ESG disputes. Also, investors use ESGs a criterion to evaluate the socially responsible practices of the companies and make investment decisions. The social criteria are evaluates based on the company's relations and management capabilities with the suppliers, consumers, employees and public. Socially Responsible Investing and the extent of disclosure of information affects the company's value in the market. Companies that are able to perform better in terms of operations and finance are observed to have high ESG ratings in IT companies (Karminsky Alexander Markovich et.al (2022)). The digital transformation adopted by companies are found to have large benefits in the business and are able to adopt better ESG practices. Organisations that disclose ESG information enjoy a good image among the stakeholders (Lian et al., 2023). The practice of ESG leads to green innovations and gender diversity in companies. The ESG practices and results influence the investors and the financiers in their investment decisions in firms with ESG issues (Habib, Ahmed & Mourad, Nahia. (2023))

Future perspective of ESG

The policy makers and the stakeholders should focus on the data acquisition, analysis and ESG performances.

The intricate relationship between the environmental dimensions and social dimensions within the ESG framework is crucial for advancing our understanding of sustainable practices. This exploration can reveal insights that contribute to a more holistic understanding of the interconnectedness between environmental and social factors.

Establishing a common framework or set of guidelines for measuring ESG factors would increase transparency, comparability, and the reliability of evaluations. Such a standardized approach would facilitate relatively accurate cross-industry comparisons and also foster a understanding of sustainable development practices

Simplifying the measurement and assessment processes will not only enhance accuracy but also streamline the incorporation of ESG concepts into business practices. This, in turn, ensures that businesses can effectively measure and track their environmental, social and governance (ESG) performance in consistent and comparable manner.

By establishing a regulatory framework that mandates ESG considerations, governments can create a level playing field for businesses, encouraging widespread adoption of sustainable practices. Clear and comprehensive policies provide businesses with guidelines on incorporating environmental, social, and governance factors into their operations, ensuring a consistent and measurable approach across industries.

Integrating various sustainability points and exploring ESG and Sustainability for industries, adopting robust test methods for baseline data, and conducting comparative analyses over time are possible avenues for future research. A multifaceted study will enhance the sustainability studies, contributing to the ongoing evolution of sustainable business practices.

Conclusion

Environmental, Social, and Governance, has become the fundamental framework for organisations committed to sustainable development. The integration of ESG with business management and the investment decisions has led to international recognition for the organisations practicing sustainability. Government play a pivotal role in recognizing the significance of ESG in sustainable development and it is imperative for regulators to craft realistic policies, rules, and information revelation systems.

The adoption of ESG policies goes beyond meeting regulatory requirements; is a strategically vital and positively impacts manufacturing, innovation, value creation and monetary performance. This exhibits the interdependence among corporate success and the development of a society that values environmental responsibility and social well-being.

The research on sustainability studies contributes significantly to the ongoing evolution of sustainable business practices. Ans also emphasis on the importance of such practices in achieving broader societal and economic goals.

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