

CHANGING PERSPECTIVE: ESG, A DEEPER CONNECTION BETWEEN FUNDAMENTAL NEEDS AND ENVIRONMENT PROTECTION

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Abstract: The 21st century provides us with a new concept of environmental social governance. Each of these three words can be defined separately, however, taking them into account together may be trickier. This study explains the connection between business management, financial markets and sustainability. By presenting the goals established by the European Union through the Green Deal and other pacts, we explore more thoroughly what accessing "green" funds means and how each term mentioned above may transform into another concept.

Key words: *ESG, Green Deal, financial markets, business management, sustainability*

INTRODUCTION

The concepts of sustainability and environment have been worldwide spread from before 2009 and their main scope is to achieve fundamental needs while taking care and not jeopardizing the ability of future generations to meet their own. In other words, sustainable development means a high quality of life and integrating long-term objectives, local and global action into our daily routine. This automatically resulted in inducing the idea that environmental issues are inseparable and interdependent components of human progress.

Sustainability will not be achieved by policies, it has to be taken upon by people as a responsibility and it must become a guiding principle for the majority of choices citizens make. The bigger impact that we have in mind nowadays can only be achieved by rather small changes each of us make in our lives. At a broader level, sustainability must be reflected through political and economical decisions that have to be taken.

ESG or environmental social governance – sometimes referred to as sustainability – is a means to an end, a way of changing the patterns of economics, social structures, consumption and production. Included in a company's policy, ESG offers the milestones used when measuring the ethical and sustainable impact of an investment.

Public interest in ESG has been continuously growing not just in a business context, but also in climate change (the world leaders' summit regarding the actions that need to be taken to ameliorate the consequences of climate change), putting pressure on services providers and governments to improve the sustainability of processes. Globalization also has a key role. Due to the fact that the human nature is more complex (cultural exchange and international interactions), the simplistic and vague answers that we have been used to until now, no longer please people.

In the business context, ESG means creating new values and new frameworks taking into account the business size and income, while keeping its activity clean (not harming the environment in any ways).

Moreover, the concept should be analyzed divided into three. The E stands for how a company affects the planet through various activities that it performs. It includes issues such as climate change, gas emissions, waste and pollution, water and energy efficiency, deforestation, biodiversity. The S for social reflects the responsibilities entities have regarding surrounding societies and ways of operating (working conditions, human rights,

health and security, community engagement etc). The G for governance is related to the ethics of an organization. This is probably the most important factor as it seeks long-term benefits for the shareholders, society and employees at the same time. Some of the issues it deals with include tax strategy, executive pay, board diversity, donations, compliance etc.

Today, however well set in theory ESG (sustainability) is, the practical approach has some gaps and holes. Businesses are adaptive and complex systems and ESG is a component whose parameters and principles must be integrated, this aspect resulting in the actual need of wholeness, complexity but yet simplicity and practicality.

MATERIALS AND METHODS

The motivation of the research comes from the fact that, internationally, using the bibliometric analysis, we noticed a high research interest on the topic of ESG (environmental social governance).

We selected the words "ESG", "environmental", "social" and "governance" in the Scopus database and obtained a number of 864 scientific publications between 2007 and 2022.

We will present in Figure 1 the structure of scientific papers published in the Scopus database in the period 2007-2021.

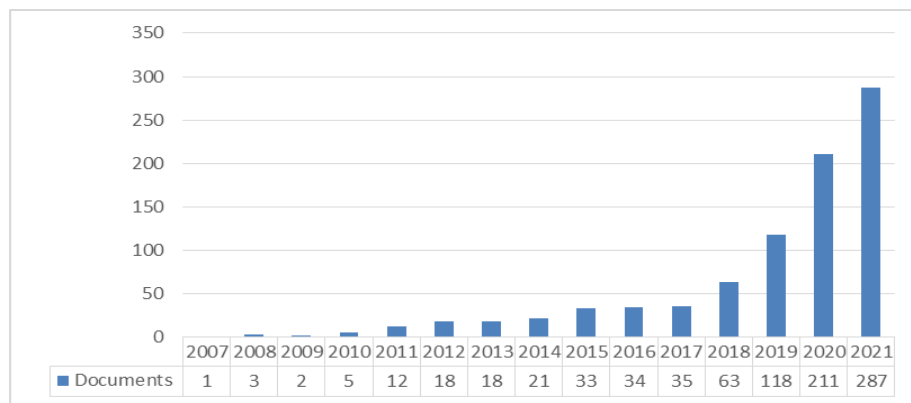


Figure 1. Structure of scientific papers published in the Scopus database in the period 2007-2021

Source: processed by the authors with RStudio

One of the aims of the study would be to explain how the term “ESG” is evolving in day-to-day life, its meaning and how its usage is still under a development phase [13]. However, the main objective of the study is to mark the connection between business management, financial markets and sustainability, initially explaining why investors and companies should give importance to ESG and later on describing which are the problems organizations and companies could face on their way to sustainability awareness.

The topic is viewed using a holistic approach, as well as a bibliometric analysis to analyze the research trend of this topic both in terms of the keywords used and the global distribution [10]. In order to interpret the results of the bibliometric analysis, we used the bibliometrix library of Rstudio program [8].

References to various articles, case studies and blogs are compiled to portray a fair view-point. The article is also a kind of reality check for many because it highlights that “as ESG is growing and becoming more complex, it is getting more and more challenging for the investors to make decisions” [13].

RESEARCH RESULTS

The environmental, social and governance (ESG) criteria has been the leading point of discussions gaining momentum in relation with investors, customers, communication relations, companies and organizations. Its influence is present in all economic and policy sectors from energy, stocks and investing, taxes to urban planning and so on. Furthermore, it is believed that environment friendly policies can increase competitiveness and superior performances [1].

The most used keywords globally when discussing ESG are: key performance indicators, shareholder engagement, gray, performance evaluation, socially responsible investment, socially responsible investing (SRI), emerging markets, institutional investors, corporate social responsibility, corporate governance, ESG, environmental, CSR and COVID-19. Figure 2 shows that the research trend in 2007-2021.

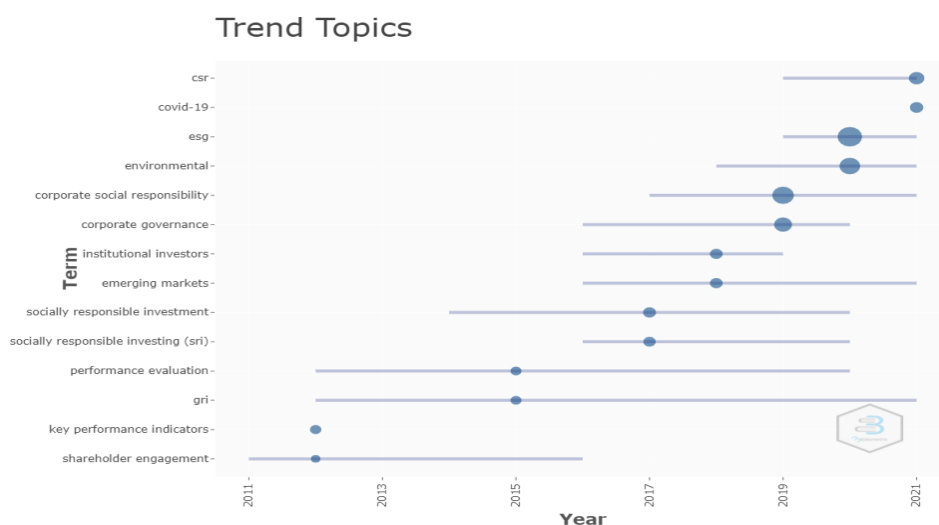


Figure 2. Trend Topics

Source: processed by authors based on the Scopus database, with Rstudio

Figure 2 shows that the research trend, starting with 2019, is directed towards the words: CSR, COVID-19, ESG, environmental, corporate governance and institutional investors. Table 1 presents these words as well as the frequency of their appearance in research articles, but also the annual research trend.

ESG is forecasted to be rising the industry's standards for consumption and production. This means that if a business did not set these criteria as a way of working from the beginning, it may become a problem to implement it later on. When this happens, the main steps taken are considering how the products affect social and natural environments and how the sources can be preserved on the path to becoming more sustainable. Articles published in the Business and Society Review magazine mention that "Our traditional toolkits for managerial problem solving are ill-equipped to capture and respond to sustainability issues" [14]. These traditional toolkits consider that there is only one general truth, that everything has to be linear. But as the world progresses and contemporary approaches are worldwide spread, CEOs might have to start thinking outside the box, to be prepared for the unpredicted changes of the system.

Table 1.

Trend topics

KEY WORDS	FREQ	YEAR Q1	YEAR MED	YEAR Q3
KEY PERFORMANCE INDICATORS	8	2012	2012	2012
SHAREHOLDER ENGAGEMENT	5	2011	2012	2016
GRI	7	2012	2015	2021
PERFORMANCE EVALUATION	7	2012	2015	2020
SOCIALLY RESPONSIBLE INVESTMENT	15	2014	2017	2020
SOCIALLY RESPONSIBLE INVESTING (SRI)	12	2016	2017	2020
EMERGING MARKETS	14	2016	2018	2021
INSTITUTIONAL INVESTORS	14	2016	2018	2019
CORPORATE SOCIAL RESPONSIBILITY	123	2017	2019	2021
CORPORATE GOVERNANCE	63	2016	2019	2020
ESG	185	2019	2020	2021
ENVIRONMENTAL	106	2018	2020	2021
CSR	35	2019	2021	2021
COVID-19	18	2021	2021	2021

Source: processed by authors in RStudio based on the Scopus database

From the ESG criteria we can extract another concept, sustainable thinking, which offers new meanings and ways of understanding the challenges that society faces today. Sustainable thinking is an action-oriented approach designed to analyze the initial parameters and standards and to develop an up-to-date complex system.

As sustainability relies on resilience and adaptivity, a good example of sustainable thinking is offered by Nike’s innovation. If during the 1990s Nike was involved in numerous scandals on account of its defensive strategy, today, the company is one of the active sustainability leaders. In order to do that, it had to set ambitious yet achievable goals such as zero waste and toxins, sustainable growth and profitability. They created a new team called “Considered Design” and gave it absolute freedom in order to integrate the principles of sustainability in the heart of the company. In other words, Nike integrated ESG through new business models and operations, through creativity, through respecting the feedback and addressing the core problem.

Moreover, sustainability thinking works best in conditions where there are rapid changes, multiple environments, multiple factors contributing to challenges or problems, a large number of stakeholders, high demand and not that many resources. A post of The Harvard Law School Forum on Corporate Governance suggests that companies should be wise enough to avoid situations that may backfire and result in missed opportunities or even worse, expose them to a high-risk situation [11].

In the mining industry, sustainable management and development means a commitment to improve the exploration and operation. Some of the solutions that have been used, apart from the legal ones, are joining environmental groups and programs to spread the knowledge deeper into the members of the entities and sharing on stock markets. The mining industry looks forward to assess and create new guidelines to preserve the ecosystem and keep the communities safe.

In terms of marketing and management, sustainability, so ESG, means that companies which don’t over-produce, have to precisely calculate the primary resources they need for a cycle of production in order to not waste. The theory of reducing reverse supply [1] can also be used to achieve the “impossible”. This means that companies, especially brands, should make their products repairable and that they should also complete their recycling strategies. The lack of forecasts or ability to interpretate and transform the consumers’ behavior into data leads to over-supplying and this further leads

to unnecessary recycling. In this context, the reverse supply means producing only after orders have been placed. The products which remain unused go directly to recycling and they increase the cost of recycling efforts.

Another idea which circulates in marketing is making services more qualitative as they start from interpreting the consumers' wishes. In this cases, modular products are the ideal because they allow the customers to change a part/piece of the mentioned product without buying a new one or throwing away the ones they own. Examples can be given related to home accessories. People can not repair or change pieces of their cookers, microwaves, irons etc and instead they have to pay extra for this service. Because of the high prices, they choose to throw away an almost perfectly working product and buy a new one. A solution for this might be the buy-back system which allows you to give your old products back (which will anyways be sold again or they are disassembled and the working pieces are reused), get a discount and then buy something new.

ESG investing has undoubtedly gained immense support in the last few years and it works best with socially oriented funds. It utilizes the criteria to forecast risks and opportunities on medium/long-term.

In the Figure 3 we will present the scientific contribution of countries to ESG research, in order to analyze the research interest and applicability of this concept worldwide [12].

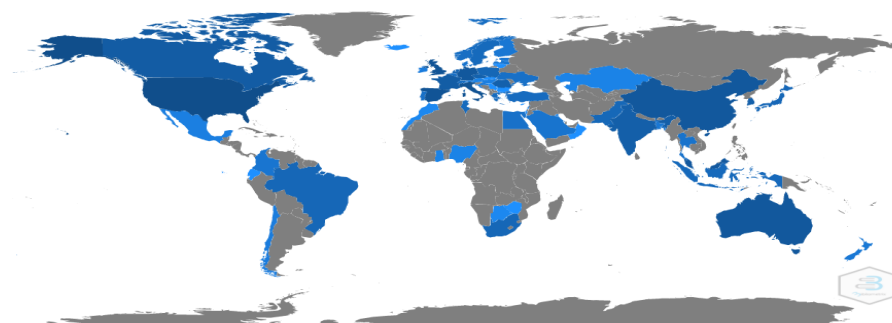


Figure 3. Country Scientific Production

Source: processed by authors with Rstudio

Figure 3 shows that the highest interest in research on the topic of ESG is presented by the USA (111 documents), followed by Italy (182 documents), and the lowest level of research interest on this topic is Austria, Ghana, Kazakhstan, Nigeria, Botswana and Morocco (1 document). These results are also interpreted in the Table 2.

What differentiates ESG investing from simply investing is that it considers more factors than the usual financial performance. It takes into account the good practice and governance of the company, the social environment, the responsible behavior.

In order to achieve major objectives and to report the performance, investors have been using a wide specter management and marketing, of frameworks, tools, parameters.

The European Green Deal is a practical example of this sudden change that shows concern of masses towards the environment. This act was adopted in 2019 and it has 9 headline targets among which:

- No net emissions of greenhouse gases by 2050
- Economic growth decoupled from resource use
- No person and no place left behind.

Table 2.

Country Scientific Production

Region	Freq	No of doc	Region	Freq	No of doc
USA	278	111	SWITZERLAND	17	7
ITALY	182	73	LEBANON	14	6
SPAIN	162	65	PORTUGAL	14	6
UK	162	65	UKRAINE	14	6
AUSTRALIA	112	45	EGYPT	13	5
GERMANY	110	44	THAILAND	11	4
CHINA	109	44	DENMARK	10	4
MALAYSIA	102	41	SAUDI ARABIA	10	4
CANADA	80	32	COLOMBIA	9	4
FRANCE	75	30	BANGLADESH	8	3
INDIA	62	25	ESTONIA	8	3
SOUTH KOREA	58	23	FINLAND	8	3
ROMANIA	52	21	LATVIA	8	3
CZECH REPUBLIC	49	20	NEW ZEALAND	7	3
NETHERLANDS	38	15	CROATIA	6	2
POLAND	32	13	CHILE	5	2
BRAZIL	30	12	IRELAND	5	2
JAPAN	30	12	HUNGARY	4	2
SOUTH AFRICA	30	12	KUWAIT	4	2
PAKISTAN	29	12	LUXEMBOURG	4	2
INDONESIA	25	10	MEXICO	4	2
SWEDEN	24	10	SINGAPORE	4	2
TUNISIA	23	9	AUSTRIA	3	1
GREECE	22	9	GHANA	3	1
TURKEY	21	8	KAZAKHSTAN	3	1
BAHRAIN	17	7	NIGERIA	3	1
BELGIUM	17	7	BOTSWANA	2	1
NORWAY	17	7	MOROCCO	2	1

Source: processed by authors on RStudio

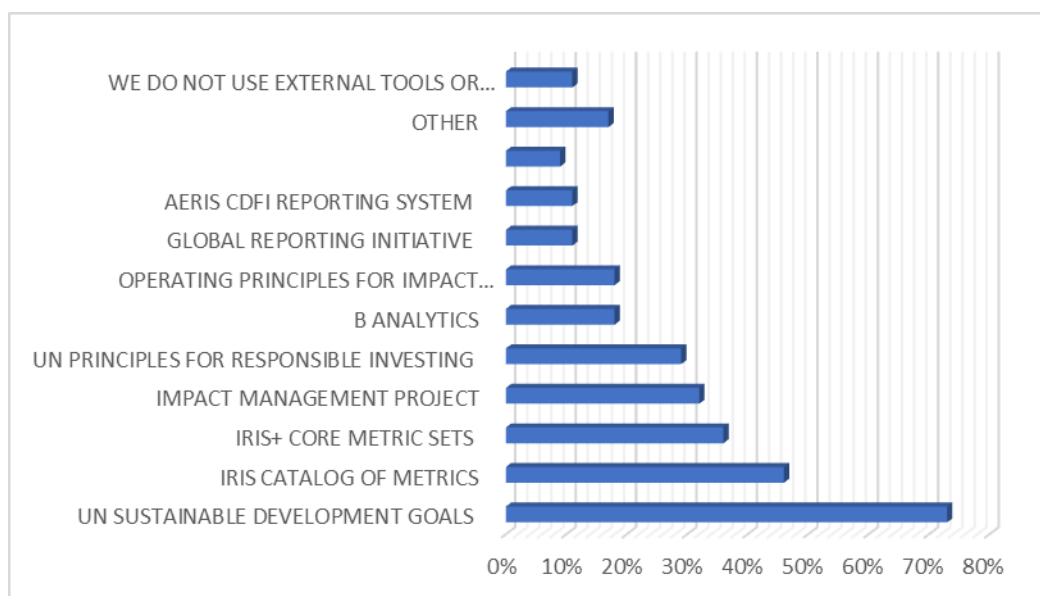


Figure 4. Impact measurement and management systems used by impact investors

Source: Norrestad, 2020 [5]

It is said that the European Green Deal is in favour of the citizens providing them with a better quality of life. In agriculture, the deal goes by the idea that a healthy planet, healthy food system mean healthy people and societies. An essential role in this plan will be played by organic food. The target is that at least 25% of the EU’s agricultural land to

be used for organic farming and production. In order to boost the demand for organic food, the EU will be using standard methods of advertising as already approximately 80% citizens agreed that organic food would comply with the ESG criteria and that it is the only one who takes into account the animal welfare [4]. Organic food means encouraging local productions and supplies chain which benefit the farmers as it increases their incomes. Farmers will also be rewarding for implementing sustainable agriculture practices into their businesses. The area under organic farming has increased by almost 66% in the last 10 years.

CONCLUSIONS

The main objective of the study was to mark the link between business management, financial markets and sustainability, initially explaining why investors and companies should give importance to ESG and later describing what issues organizations and companies might face in their path to sustainability awareness, addressing both a holistic research and a bibliometric analysis of scientific publications.

As it highlights the main concerns of the society and also the changes which can not be avoided, it will continuously evolve throughout the next years. Organizations and businesses have started to see it as a significant factor which must be introduced in their complex systems.

Instead of relying on the modern traditional ways of perceiving business, owners have to be more creative and change the statistics it takes into account when evaluating productivity, profit, communication, sustainability and ethics. The three phrases we have to have in mind when we discuss ESG are strategic reinvention, reimagined reporting and business transformation. These dimensions are interdependent. They each fuel the other.

The contribution of the paper to scientific research is represented both by the fact that we analyzed the evolution of the research trend of scientific papers written on ESG, and in terms of references to various articles, case studies and blogs compiled to present an overview of the topic. research.

The limitations of the research are related to the fact that our study is conducted on non-financial data, which are not quantified using an indicator, and given that scientific resources are in a high amount, there is the possibility of omitting bibliometric data because the search was based on Purpose of the words 'ESG', 'environmental', 'social' and 'governance'.

Because corporations are expected to be more transparent when disclosing risks and requirements to their businesses and to take into account diversity, natural resources and green modes of production, future research perspectives focus on finding an econometric model for quantifying the impact generated by implementation of ESG measures at the corporate level.

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