

ESG Transformation in the Corporate Sector: Systematizing the Global Approach

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Abstract—The article discusses the arguments related to the ESG transformation in the corporate sector of the global economy. An attempt is made to systematize and classify the materials prepared by leading international institutions and the business community as part of the implementation of the ESG agenda. The components of ESG projections that should be included in the business strategy of the company are considered. The new elements in the structure of investments in the corporate sector are defined. The algorithm of changes in the system of corporate governance in the process of ESG transformation is developed. The optimal structure of reporting for disclosing the information concerning the accounting of ESG factors in the company activity is presented. The scheme of the process of the ESG transformation of the business model in the corporate sector is proposed. The results of the study of the main methodological approaches used in the construction of ESG ratings are interpreted. The article reveals the main problems in the process of rating companies based on the assessment of ESG risks.

Keywords: ESG transformation, ESG principles, responsible investing principles, ESG factors, ESG risk, ESG rating

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Over the last decade, the approach based on ESG principles has become increasingly relevant in the corporate and public sectors of the global economy as a management philosophy and the most attractive investment direction. This approach means that companies consider as a priority investment projects and management principles the implementation of which is based on the principles of environmental friendliness, social responsibility, and quality corporate management of enterprises and organizations. It is also reflected in the abbreviation ESG itself: E stands for environmental (ecology); S, for social (social responsibility), and G, for governance (corporate management).

The attention paid to ESG principles and criteria is due to at least three factors.

Research in the corporate sector and academia over the last decade has confirmed that adherence to ESG principles in a number of cases can improve risk management and produce returns comparable to those of traditional financial market investments.

Increasing public attention to the risks posed by environmental and climate change has a direct impact on investment and consumer choices in field of business.

More and more companies across sectors are emerging that are willing to forgo high short-term profit margins in favor of long-term sustainability of investment performance and compliance with social values within the responsible environmental and socially oriented management.

According to the Institute for Governance & Accountability (G&A),¹ by the end of 2021, the number of large companies that had joined the initiative exceeded 4100 with combined assets of over \$110 trillion.

Despite the fact that sustainable development factors are taken into account in both the corporate and public sectors of the economy, the methodological basis for introducing ESG principles into practice and ESG evaluation continues to improve.

The greatest difficulties in the implementation of the ESG agenda are experienced by medium and small businesses, because the efforts of participants developing the corresponding methodological approaches did not lead to the emergence of uniformly agreed standards for the regulation of corporate ESG practices at the global level.

¹ <https://www.ga-institute.com/index.php?id=9127> (accessed on June 18, 2022).