

Following ESG Principles as one of the Key Business Factors

*Rashiya Bekmurzaeva**

Kadyrov Chechen State University, Sheripova Street, 32, 364024, Grozny, Russia

Abstract. Following ESG principles is now one of the key drivers of business value. In this regard, there are companies that try to mislead stakeholders, which has a negative impact on the whole process of responsible investment, as it reduces investor confidence. Such activity is called impact (green) washing - imitation of the company's implementation of an environmental or social mission. In connection with the observed large trend of the "green" agenda, greenwashing has become especially widespread. In the modern sense, greenwashing is a false positive communication of a company about its environmental impact on the environment, in other words, it is a misrepresentation by a company about a product, service or investment, in which they appear to be more environmentally friendly than they really are.

1 Introduction

Climate change mitigation, the pursuit of a broader ESG agenda, is largely dependent on the adoption of corporate innovation. We are convinced that companies have played and will continue to play a central role in finding and scaling up decarbonization solutions. Our analysis showed that corporate data must be subject to scrutiny to ensure that companies' promises are trustworthy [1]. The truly ambitious corporate players can be bolstered by stronger regulation that levels the playing field by ensuring they are not at an economic disadvantage compared to their less ambitious counterparts. Regulators and standards-setting initiatives must find ways to distinguish and separate climate leadership from greenwashing in order to support ambitious players to innovate and accelerate decarbonisation. The reporting of companies has always been under special expert and public control [2]. This is due to a general fatigue from the relativism of the concept of CSR, which was seen by many as a front to hide the real practices of corporate selfishness. The neo-communitarian approach and the theory of stakeholder capitalism made it possible to breathe new life into the conceptual basis of corporate social responsibility, eroded under the pressure of criticism from all sides (both from the left and from neoliberal positions). Nevertheless, a clear understanding of the severity of climate problems has led to the fact that, as a real mechanism for countering greenwashing, the hitherto dispositive agenda is gradually switching to a mandatory mode [3]. The current system of non-financial reporting of companies on sustainable development that has developed in Russia does not allow

* Corresponding author: raya.bek@yandex.ru

forming a general picture of their activities in the field of sustainable development and assessing the prospects for achieving the goals set by the Paris Agreement.

The way out of this situation may be the development and adoption of unified requirements for the reflection of indicators of sustainable development of companies (in the context of ESG), which are mandatory for use by market participants. At the same time, the responsibility for collecting and preparing the values of key ESG indicators can be assigned not only to corporations, but also to the state. For example, law enforcement and judicial authorities could well generate statistics on the facts of corruption crimes or antimonopoly cases, and Rosprirodnadzor could generate data on pollutant emissions in the context of large Russian companies that generate non-financial reporting. The values of sustainable development indicators coming from various departments and corporations are proposed to be aggregated in a specialized information system accessible to a wide range of stakeholders. Moreover, the Action Plan for the implementation of the “Concept for the Development of Public Non-Financial Reporting” provides for both the formation of such a list of indicators and the development of information resources dedicated to public non-financial reporting.

2 Research methodology

According to OECD estimates, SMEs account for 60-70% of industrial pollution in Europe, so the introduction of ESG principles becomes a necessary stage for further development and attraction of investments not only to large, but also to medium and small businesses [4]. Responsibility is demanded by investors, regulators and customers, especially young people who are interested in responsible consumption. In international practice, the main factors for the growth of the involvement of small and medium-sized companies in the ESG agenda are the following. Investor interest in companies with a strong ESG profile. SMEs that have their own sustainability agenda are more likely to attract sustainability investors and green business angels [5]. If a few years ago only a small number of investment companies considered ESG factors when making an investment decision, today almost three-quarters (72%) of investment companies do just that. New generation investors are more assertive in their commitment to sustainability: a recent CNBC poll showed that a third of millennials and another 19% of Generation Z are only interested in investing in companies that adhere to ESG principles. Promoting responsible consumer consumption. Consumer behavior has changed a lot in recent years. Today’s buyers tend to look to companies with a strong ESG profile that reflects sustainability values [16]. Among the millennials and generation Z, the social responsibility of the manufacturer is one of the motivating factors when making a decision to purchase products (services). The customers of tomorrow are likely to hold companies accountable for their environmental impact, which means that companies will need to strengthen their ESG profiles to retain the consumer [6]. Compliance with ESG principles can help small companies save on transaction costs. For example, switching to alternative energy sources can reduce the cost of electricity, and the elimination of paper receipts and printed products (instructions for equipment, brochures and catalogs) can reduce the cost of paper and printing. The transition to ESG in some cases can increase operating profit by values close to 60% by reducing operating costs. Another important aspect that is closely related to the ESG of a small company is the attraction of talent. The cost of replacing an individual worker can range from half to twice the worker’s annual salary [15]. The Mercer Global Talent Trends 2020 study, based on surveys of 7,300 senior executives from 34 countries, found that nearly half (46%) of executives believe their organization is “ill-equipped to attract and retain millennials and Gen Zers,” who will make up 75 % of the workforce in the next four years.

According to a CSR study of 64% of millennials, a company's commitment to corporate social responsibility is one of the determining factors when choosing a future job.

3 Results and Discussions

Companies' supply chain emissions of greenhouse gases were on average 11.4 times higher than their operational emissions, so today more and more large international organizations are beginning to implement tools to reduce the carbon footprint not only from their activities, but also from the activities of their suppliers. In turn, this encourages suppliers to comply with the environmental standards of the Corporate Greenhouse Gas Protocol in terms of accounting and reporting of the corporate value chain. SMEs are under increasing pressure from big business to get SMEs involved in the decarbonization challenge [7]. By the way, in March 2022, the American division of Siemens announced the launch of a \$100 million supplier decarbonization financing program. The program is aimed at small and medium-sized enterprises that do not yet track and manage their emissions. If the requirements in terms of the S- and G-components of the ESG agenda were written into corporate supply chains for a long time - at the end of the last century, now it is time to address the requirements for decarbonization ecology to suppliers [14]. As a result, ESG requirements for suppliers imposed by large international companies can be conditionally divided into the following groups [8]: 1) high places in ESG ratings; 2) use of carbon emissions as a selection/prequalification criterion in addition to such criteria as price, delivery time, quality of goods and services supplied; 3) the use of other environmental indicators as a selection / prequalification criterion in addition to such criteria as price, delivery time, quality of goods and services supplied; 4) establishment of a list of "green" goods that are purchased, goods with large emissions are not included in the catalog of companies' purchases [9]. A possible variation of the approach: lists are established, but not everywhere, but only within a narrow set of category strategies (for example, only when purchasing certain types of goods, works, services). At the same time, if soft forms are used at the initial level of ESG maturity of the supply chain (such as recommendatory ESG codes of suppliers), then at the subsequent levels, the requirements are tightened up to the rejection of suppliers with a poor ESG rating. Despite all the positive factors that contribute to the development of ESG in small companies abroad, the sustainability agenda has a number of barriers to the use of SMEs. Limited financial resources [13]. The lack of financial resources is one of the first places among the problems faced by entrepreneurs on the path to sustainable development. Small companies have less financial capacity than large companies to cover the costs of developing green products or investing in green production [10]. The national packages of most countries do not close the funding gaps for SMEs to transition to green business practices. Currently, in OECD countries, greening SMEs accounts for less than 3% of all funds allocated to environmental projects. At the same time, in some countries, the green production agenda is strongly supported at the state level [12]. A striking example is Finland, where budget expenditures on compensation payments to farmers using organic farming in 2020 amounted to 147.84 million euros, another 156.37 million euros were paid from the European Agricultural Fund for Rural Development (EAFRD). In 2020, the area of land devoted to organic farming was about 13.1% of the cultivated agricultural land in Finland. Lack of skills and labor resources. Small companies face burdens that are disproportionate to their ability to move towards sustainable development [11]. ESG integration requires highly skilled staff or costly external consultants, which is beyond the reach of most SMEs. As a result, small companies may have clearly weaker ESG profiles than large businesses and less motivation to migrate to ESG. Optional ESG certification for SMEs. Most small companies are not required to

disclose ESG metrics or meet certain ESG standards. At the same time, prerequisites are being formed for tightening the requirements for non-financial reporting of SMEs.

4 Conclusions

Thus, in international practice, the key factor in the transition to ESG for small and medium-sized enterprises is the opportunity to participate in the value chain of large businesses. In order to reduce greenhouse gas emissions in their supply chain, large international organizations are beginning to require their suppliers to implement tools to reduce their carbon footprint. As recommended by McKinsey & Company, the final step in the transition to sustainable supply will be for large companies to move away from suppliers with poor ESG ratings. Thus, SMEs operating in the corporate sector will be forced to move towards sustainable business practices. For smaller end-consumer companies, the move to ESG is driven by the development of responsible consumer consumption and the need to attract talented employees who are placing increasing demands on the corporate and social responsibility of future employers.

The best foreign practices that facilitate the transition to ESG for small and medium-sized businesses are ESG certification systems for SMEs, which offer their participants a collection (showcase, library) of ESG initiatives. Companies wishing to become a certified member implement the proposed initiatives in their organization, receiving a certain number of points for this. The next stage in the development of ESG certification systems for SMEs are ESG platforms, which, like ESG certification systems for SMEs, offer their participants to implement initiatives, receive points for this, and subsequently undergo certification on the platform. But, unlike certification systems, ESG platforms offer ESG initiatives that promote interaction between platform participants, thereby not only stimulating sales of products and services of sustainable companies, but also protecting the market from greenwashing. Russian small and medium-sized companies are away from the ESG trend, and in those SMEs where ESG initiatives are being implemented, they are of a targeted nature. The initiator of the transition to sustainable development for SMEs in our country can be customers of their goods and services from among large companies that are interested in increasing the sustainability of their value chain.

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