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IMPLEMENTATION OF ESG PRINCIPLES AS AN OPPORTUNITY TO INCREASE THE INVESTMENT ATTRACTIVENESS OF THE COMPANY

The need to introduce ecological, social and managerial aspects into the corporate and social culture of the enterprise is argued. New regulatory requirements, investors' rethinking of new criteria for choosing potential sources of financing, push managers to implement ESG principles in business strategy and all business processes. During the analysis of a potential project for investment, attention is paid not only to the possible amount of profit, but also the social component of the business is carefully studied. The views of investors on the issues of sustainable development and the need to disclose information in non-financial reporting are considered. Currently, in Ukraine, in the context of the implementation of the EU Directive on Corporate Reporting on Sustainable Development (CSRD), primarily banking institutions, insurance companies, as well as enterprises of public interest with more than 500 employees, and others are required to publish a non-financial report enterprises subject to the established criteria. The main obstacles and problematic aspects of ESG implementation are identified. It has been proven that an important part of the research is the comparative analysis of ESG and CSR. The article analyzes the differences between ESG risks and Business risks. The article also pays attention to strategic problems depending on industry specifics. Depending on the type of activity, significant attention is paid to certain topics that have the greatest impact on the company or potentially constitute an ESG risk. The authors emphasize that for the social aspect of financial institutions, attention should be paid to data security, because leaks of customer data can harm a significant part of society. In the context of management, an example of a strategic priority is corporate ethics to prevent conflicts of interest, corruption and other forms of misconduct. Considering ESG in the context of global economic trends allows us to conclude that the implementation of such approaches not only increases the reputation of companies, but also becomes a necessity for maintaining their competitiveness on the international market.

Keywords: *ESG, corporate social responsibility, investment attractiveness, greenwashing, sustainable development, non-financial reporting, project analysis, investment project, enterprise potential, risk, business process.*

JEL Classification: D21, M11, O16

Statement of the problem. Previously, the integration of sustainable development factors into the corporate culture was considered a voluntary initiative of responsible business or as an addition to the main benefits. However, it is already perceived as a duty to society and future generations. New regulatory requirements, rethinking by investors of new criteria for choosing potential sources of financing, push managers to implement ESG principles in business strategy and all business processes. The need to address social challenges through responsible business practices is also driven by the understanding of long-term benefits.

Analysis of recent research and publications. In recent years, more and more scientists have begun to pay attention to the economic justification of the need to introduce ESG initiatives into the corporate culture.

ESG (Environmental, social, governance – "environment", "social sphere", "corporate governance") – the company's efforts in each of these directions for the sake of sustainable development.

These criteria are taken into account by investors and financial institutions when making investment and lending decisions, as well as counterparties and suppliers in the course of commercial activities.

The article by I.V. Shostak and H.P. Plysenko examines the essence and components of the principles of integrated reporting and its impact on the sustainable development of the organization. The authors emphasize the importance of taking into account financial and non-financial risks, as well as the need to form a strategic vision based on ESG components (environmental, social, management aspects) to support sustainable economic growth [1]. O. Makarenko emphasizes the importance of integrating ESG principles into business strategies for long-term success, and also analyzes the need for similar initiatives during the war [2]. In the issue of “ESG. A game in perspective” from KPMG, representatives of Ukrainian companies consider the problems and possibilities of social responsibility. Thus, V. Kudrytskyi points out the need to implement ecological approaches in the energy industry using the example of NEC “Ukrenergo” [3]. T. Vervega draws attention to the need for Investments in ecological solutions, which are an important direction of modern business transformation [3].

Objectives of the article. First of all, the goal is to outline the relevance and need to change conceptual management approaches through statistical data from investor surveys, distinguish the concepts of ESG from CSR, ESG-risks from business risks, identify difficulties in the implementation of sustainable development factors in company policies, identify essential factors - risk depending on the specifics of the industry, to form a scientific justification for the need for capital investments in social initiatives.

Summary of the main research material. The issue of sustainable development is increasingly receiving significant attention from investors, creditors and government regulators. During the analysis of a potential project for investment, attention is paid not only to the possible amount of profit, but also the social component of the business is carefully studied. In addition to generally accepted financial reports, there are non-financial reports that disclose information about the company’s sustainable development. That is, these are reports that disclose information about transparency and responsible business behavior. According to research from PwC, 78 % of investors believe that companies should integrate ESG directly into their strategy, and 95 % of private equity funds integrate material ESG issues into the commercial due diligence process before making investment decisions, demonstrating the significant role ESG plays in assessing risks and opportunities for capital investments [4].

However, it is also worth noting the fact that, compared to 2021, investors’ positive sentiment regarding the importance of ESG decreased slightly in 2023 (Figure 1).

Thus, in 2021, 79 % of investors took into account such a key aspect as the sustainability of business introduction when making decisions, and in 2023, only 74 % agree with this opinion, which is 5 % less. Such a trend can be explained by a change in priorities, since the implementation of environmental, social and management measures is more oriented towards long-term perspectives and results, and the need for obtaining short-term profits is caused after the coronavirus pandemic. The opacity of reporting, manipulation of data for the sake of positive approval by investors also leaves its mark. In addition, the requirements of the EU Corporate Sustainability Reporting Directive (CSRD) are only beginning to be gradually put into practice for the first companies and supplemented by new standards.

Ratings regarding the sustainable development of companies differ significantly, as there are still no standardized approaches and calculation methodologies. This is confirmed by a correlation analysis by PwC, the results of which showed a significant discrepancy in the results when evaluating the ESG profile of 40 companies from different industries by 4 well-known rating agencies (MSCI, Sustainalytics, S&P Global and Refinitiv). Thus, given the fact that these principles of sustainability and control are relatively new and are only beginning to be applied in practice, introduced into the corporate culture of enterprises, sustainability reports, regulatory requirements and approaches are beginning to appear, this issue requires detailed study and scientific justification

Currently, in Ukraine, in the context of the implementation of the EU Directive on Corporate Reporting on Sustainable Development (CSRD), primarily banking institutions, insurance companies, as well as enterprises of public interest with more than 500 employees, and others are required to publish a non-financial report enterprises subject to the established criteria. In addition, according to the European Sustainability Reporting Standards (ESRS), not only European companies are obliged to report, but also those that have a significant presence on the European Union market (net turnover of 150 million euros in the EU and that have at least 1 subsidiary company or branch in the EU) and securities registered on stock exchanges in European countries (for example, the Warsaw Stock Exchange is popular among Ukrainian companies) [6].

ESRS thematic standards include three fundamental groups of principles: Environmental (environment), Social (social aspect) and Governance (corporate management). In its current form, ESG principles were first formulated by

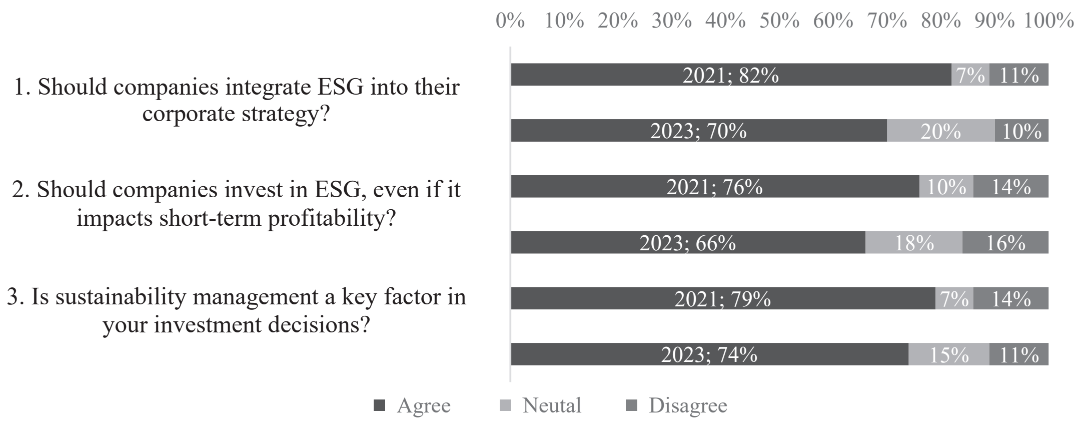

Figure 1 – Comparison of the assessment of the impact of ESG on investment and annual strategic decisions by investors in 2021 and 2023

Source: built by the authors based on [5] former UN Secretary General Kofi Annan. He suggested that managers of large global companies include these principles in their strategies, primarily to combat climate change [7].

It is worth separating ESG-policy from corporate social responsibility, the former is inherently considered a method of evaluating non-financial activities with a focus on measurable results, risks and reducing the negative impact on society by meeting the expectations of investors, people and the planet [8]. Whereas CSR is a broader concept, seen as a business model aimed at the company's overall social impact with the achievement of financial goals and brand development. ESG risks are identified with respect to interacting entities, while business risks are identified with respect to the environment in which the company exists. Significant differences between approaches to ESG risk assessment and business risk assessment are presented in Table 1.

Among the widespread problems observed in the Ukrainian space regarding the sustainable responsibility of business is the concept of "greenwashing". PR departments try to "green" the reputation of brands through a similar technique, which consists in creating an attractive image, environmental mimicry, demonstrative demonstration of care for the environment and other marketing methods to manipulate consumers and create the impression of compliance with ESG criteria.

Understanding the inevitability of the need for environmental-social-management aspects, it is important to correctly and gradually implement the latest changes. Depending on the type of activity, significant attention is paid to certain topics that have the greatest impact on the company or potentially constitute an ESG risk. For example, for banks, as representatives of the financial sector, problematic aspects in terms of environmental issues are the influence of the financial portfolio, that is, whether it consists of green investments or how much the bank supports environmental projects. This also includes the emission of greenhouse gases, as the banking institution can help support the development of enterprises aimed at minimizing carbon emissions.

ProCredit Bank, which has developed a comprehensive environmental management system, is a vivid example of such responsibility. Its essence is that, firstly, the very process of the bank's functioning is carbon neutral, since the following approaches have been implemented: own solar power plants; electric and hybrid corporate cars; waste sorting system in offices; electronic document management, use of only recycled and ecologically certified paper; energy-efficient office buildings equipped with a building automation system (BMS); education and staff involvement. In addition to the above, the bank has taken on the responsibility of publishing a report on the loan portfolio on the amount of carbon emissions according to the Partnership for Carbon Accounting Financials (PCAF) standard. As of the end of 2023, the volume of the green credit portfolio of ProCredit Bank in Ukraine amounted to 70 million euros [10]. For the social aspect of financial institutions, attention must be paid to data security, because leaks of customer data can harm a large part of society. In the context of management, an example of a strategic priority is corporate ethics to prevent conflicts of interest, corruption and other forms of misconduct. Table 2 presents the key ESG topics affecting the risk profile of companies, depending on the sector of the economy.

Table 1 – Comparison of ESG risk from Business risks

	ESG-risks	Business risks
Risk identification	in relation to the subject with which the business interacts (environment, employees, community, partners, investors)	regarding business and the environment in which it exists (political, economic, financial, operational, marketing, logistical, legal)
Market evaluation and analysis	aimed at determining how the business creates these risks (factors) and calculating the potential losses that the business can cause to subjects if the influencing factors are not eliminated	aimed at calculating losses and damages that may be caused to the business by other entities and exogenous factors
Risk management	aimed at minimizing the negative impact of business on subjects and ensuring business sustainable development	aimed at reducing the likelihood of risks and minimizing losses from risk situations
Monitoring and control	is to follow the business trail	consists in tracking various factors

Source: built by the authors based on [9]

Table 2 – Analysis of industry ESG topics by economic sector

Topics	Financial sector	Industry	Oil and Gas	Electricity	Mining and metallurgical
1	2	3	4	5	6
Ecology					
Biodiversity and land use			+		+
Impact of financial portfolio	+				
Opportunities in the development of RES (renewable energy sources)				+	
Greenhouse gas emissions	+	+	+	+	+
Air pollution		+			
Climate Strategy	+	+	+	+	+
Reliability of power supply				+	
Water consumption	+			+	+
Risks of water shortage			+		+

Continuation to table 2

1	2	3	4	5	6
Product Lifecycle Management		+			
Energy Resource Management	+	+			+
Waste disposal	+	+	+	+	+
Raw material efficiency		+			
Society					
Data Security	+				
Relationship between management and employees		+			+
Diversity and inclusion of the work environment	+				
Relations with the local population			+		+
Occupational health and safety		+	+	+	+
Human Rights					+
Human Capital Development	+	+	+	+	
Freedom of association		+			+
Financial Inclusion	+				
Management					
Fighting corruption and bribery	+	+	+	+	+
Corporate Ethics	+	+	+		
Practice of senior management	+	+	+	+	+
Compliance with legal requirements			+		
Innovation Management and R&D (R&D)		+			
Risk Management	+				+
Supply Chain Management		+			
Emergency Management			+	+	

Source: built by the authors based on [11]

Table 3 – Example of pre-implementation assessment of ESG initiatives by benefits, complexity, duration and priority

№	Initiatives	Benefits	Complexity	Duration	Priority
1	Developing a climate strategy	High	Medium	Up to 1 year	1
2	Installation of RES	High	High	Up to 2 years	1
3	Recycling of plastic/waste paper	Low	Low	Up to 1 year	3
4	Planting trees	Low	Low	Up to 1 year	3
5	Diversity and inclusion	High	Medium	Up to 2 years	1
6	Human Capital Development	Medium	Medium	Up to 1 year	2
7	Charity	Medium	Low	Up to 1 year	3
8	Diversity on the board	Medium	Medium	Up to 2 years	2
9	ESG Reporting	High	Medium	Up to 1 year	1
10	Code of Ethics	Medium	Low	Up to 1 year	2

Source: [11]

After assessing priority problems and choosing initiatives according to the capabilities of the enterprise, an evaluation of these initiatives is developed. They are ranked depending on the duration and complexity of implementation (Table 3).

It can be seen from Figure 2 that the implementation of the second initiative will bring the greatest benefits – the installation of renewable energy sources, which ensures a neutral level of greenhouse gas emissions. However, in terms of complexity, this opportunity is complex and requires significant funding.

Conclusions. Significant interest from investors and regulators has led to the growth of the ecosystem of non-financial reporting on sustainable development and ESG policies. Understanding the long-term benefits of imple-

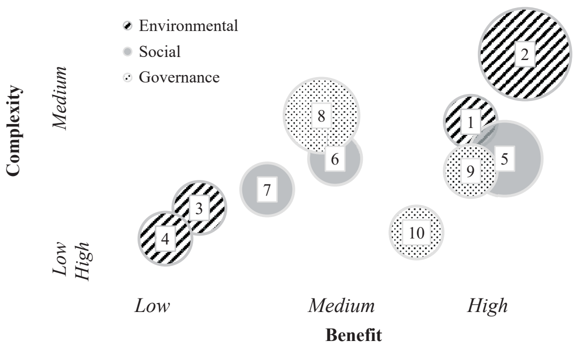

Figure 2 – Initiative implementation matrix by benefits and complexity

Source: constructed by the authors on the basis of Table 3 menting environmental and social initiatives has forced managers to develop and implement their own innovative approaches to sustainable responsibility.

The implementation of ESG by companies should take place in every business process, a full-fledged strategy should be created for the fulfillment of the set goals, it should be done in good faith and sincerely, and not only for the sake of obtaining credit benefits and attracting investor support. Before implementing this strategy, it is advisable to prioritize initiatives and take into account the specifics of the industry. In addition, it is equally important to avoid greenwashing, because until now large companies are trying to pretend to be a responsible business, but informed consumers and investors know how to distinguish it.

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ІМПЛЕМЕНТАЦІЯ ПРИНЦИПІВ ESG ЯК МОЖЛИВІСТЬ ПІДВИЩЕННЯ ІНВЕСТИЦІЙНОЇ ПРИВАБЛИВОСТІ ПІДПРИЄМСТВА

Аргументовано необхідність впровадження екологічних, соціальних та управлінських аспектів у корпоративну та соціальну культуру підприємства. Нові регуляторні вимоги, переосмислення інвесторами нових критеріїв вибору потенційних джерел фінансування підштовхують менеджерів до впровадження принципів ESG у бізнес-стратегію та всі бізнес-процеси. Під час аналізу потенційного проекту для інвестування звертається увага не тільки на можливий розмір прибутку, але й ретельно вивчається соціальна складова бізнесу. Розглянуто погляди інвесторів на питання сталого розвитку та необхідність розкриття інформації у нефінансовій звітності. Наразі в Україні в контексті імплементації Директиви ЄС про корпоративну звітність зі сталого розвитку (CSRD), насамперед банківські установи, страхові компанії, а також підприємства, що становлять суспільний інтерес, з чисельністю працівників понад 500 осіб, та інші зобов'язані публікувати нефінансовий звіт підприємства за умови дотримання встановлених критеріїв. Визначено основні перешкоди та проблемні аспекти впровадження ESG. Доведено, що важливою частиною дослідження є порівняльний аналіз ESG та КСВ. Проаналізовано відмінності між ризиками ESG та бізнес-ризиками. Також приділено увагу стратегічним проблемам залежно від галузевої специфіки. Залежно від виду діяльності, значна увага приділяється певним темам, які мають найбільший вплив на компанію або потенційно становлять ESG-ризик. Автори підкреслюють, що для соціального аспекту діяльності фінансових установ слід звернути увагу на безпеку даних, адже витоки даних клієнтів можуть завдати шкоди значній частині суспільства. У контексті управління прикладом стратегічного пріоритету є корпоративна етика, спрямована на запобігання конфліктам інтересів, корупції та іншим формам неправомірної поведінки. Розгляд ESG в контексті глобальних економічних тенденцій дозволяє зробити висновок, що впровадження таких підходів не тільки підвищує репутацію компаній, але й стає необхідністю для підтримки їх конкурентоспроможності на міжнародному ринку.

Ключові слова: *ESG, корпоративно-соціальна відповідальність, інвестиційна привабливість, грінвошинг, сталий розвиток, нефінансова звітність, проектний аналіз, інвестиційний проект, потенціал підприємства, ризик, бізнес процес.*