Available online at www.sciencedirect.com

ScienceDirect

Procedia Computer Science 221 (2023) 705–709

Procedia Computer Science

www.elsevier.com/locate/procedia

10th International Conference on Information Technology and Quantitative Management

ESG as an innovative tool to improve the efficiency and financial stability of financial organizations

Egorov Andrey[a]*

NRU HSE, st. Myasnitskaya, 20, Moscow, 101000, Russia

Abstract

The concept of sustainable development is a trend of the times and changes the core values of society. Today, various industries are trying to incorporate ESG factors into their daily operations, including many small and medium-sized enterprises. One reason is that ESG can help ensure the sustainability of a company, and it is a profitable business strategy that benefits in both the short and long term. In addition, ESG is a coherent direction in the global market, so companies specializing in the international market or intending to expand abroad need to be aware of the relevant information. The advantage is that applying ESG factors to day-to-day operations can help companies manage and obtain financing solutions such as bank loans, private equity, equity financing and trade finance. Investors are more likely to contact these companies to further advance the development of ESG.
The purpose of the study is to assess the role of ESG in ensuring financial stability and improving the efficiency of financial companies.

Keywords: ESG principles, financial stability, innovative tool, efficiency, ESG factors

* Corresponding author. Tel.: +7-926-737-48-45; fax: +0-000-000-0000 .
E-mail address: ayegorov@hse.ru

10.1016/j.procs.2023.08.041

1. Introduction

ESG principles include three main indicators, including: Environment Protection (Environment), Social Responsibility (Social) and Corporate Governance (Governance). In 2005, the United Nations released the "Who Cares Wins" report, which stated that companies should include "ESG" in the criteria for evaluating business operations.

Traditionally, when deciding whether or not to invest in a company, most of its institutional investors only look at its financial statements and evaluate the value of the investment based on metrics such as revenue and earnings. However, after ESG consideration is included, the projects that investors see will be significantly expanded due to various “non-financial factors” that affect the further development of the company. For example, a company's carbon emissions and energy efficiency, the environmental impact of supply chain manufacturers' product lines, employee training, working conditions, and stakeholder rights and interests.

ESG has been recognized as a new metric specifically used to measure the sustainability of businesses and it will also be one of the most important investment decisions affecting investors. They respectively cover:

Environmental Protection (Environment):

Represents the efforts made by the company on environmental sustainability issues, including: reducing carbon emissions, combating pollution, etc.

Social responsibility:

This means that in addition to generating profits and being responsible for the interests of shareholders, businesses must also take responsibility for employees, society and the environment. Including: compliance with business ethics, good attitude towards employees, saving resources, compliance with legal and moral standards in the implementation of activities.

Corporate Governance:

Corporate governance generally refers to the method of managing and monitoring a company, as well as the process of realizing the responsibility of the company's managers. In addition to improving the company's efficiency, it also protects the rights and interests of shareholders, takes into account the interests of other stakeholders, increases information transparency and fulfills corporate social obligations.

Taken together, ESG can be compared to a company health check report. It can fully evaluate the overall performance of the company and achieve the goal of sustainable operation. As more and more people pay attention to social and environmental issues, public expectations for corporate social responsibility (CSR) are expanding and investments in impact investing are gradually increasing, prompting many large companies to consider ESG factors when making decisions. . If an enterprise wants to remain competitive, it must understand the principles of ESG.

2. Theoretical aspects of ESG

As the name implies, the ESG concept covers three main areas: environment, society and corporate governance. It aims to comprehensively control and prevent associated risks, as well as to actively integrate the concept of sustainable development into daily activities in order to achieve inclusive growth.

Businesses need to pay attention to a variety of requirements, including compliance with regulations and adherence to the principles of corporate inclusiveness and diversity.

Environment - how much the company attaches great importance to protecting the environment.

The first ESG factor - Environmental (Environmental) is related to whether the company pays attention to various environmental issues and implements them in practice in each link of its activities to reduce the impact on the natural environment.

Environmental protection covers all aspects such as climate change, greenhouse gas emissions, waste and pollution, biodiversity, etc.

From a business standpoint, energy savings go hand in hand with lower operating costs.

By proactively setting energy saving and waste reduction targets and monitoring environmental data, businesses can effectively avoid pollution lawsuits and improve resource efficiency in the long term.

"Social" - "People Oriented" means putting people first in everything, taking into account and caring for the needs of various ethnic groups.

In the workplace, enterprises must take care of the safety and health of employees, ensure equal rights and diversity. More broadly, businesses must also make a positive impact on the communities in which they operate.
The social factor assessment is related to the work environment of employees and, more importantly, how the company actively improves the treatment of employees or even how to contribute to making the community friendlier, safer and more resilient. .
Companies that take these factors into account tend to create a more engaging corporate culture, which in turn helps reduce employee turnover and avoid associated costs.
Corporate governance - How to run a company honestly and in accordance with the requirements
The third aspect of ESG is corporate governance (Corporate Governance), also known as governance. In simple terms, it is the assessment of whether a company complies with the requirements, legality and ethics in managing its business and making decisions.
Core principles such as business ethics, anti-corruption, and compliance with laws and regulations are closely linked to the reputation of an enterprise.
The important thing is that by establishing a strong risk management system and maintaining a good reputation, companies are more likely to win the favor of investors, customers and suppliers and help the company grow.
The concept of sustainable development is a trend of the times and changes the core values of society. Today, various industries are trying to incorporate ESG factors into their daily operations, including many small and medium-sized enterprises.
One reason is that ESG can help ensure the sustainability of a company, and it is a profitable business strategy that benefits in both the short and long term.
In addition, ESG is a coherent direction in the global market, so companies specializing in the international market or intending to expand abroad need to be aware of the relevant information.
The advantage is that applying ESG factors to day-to-day operations can help companies manage and obtain financing solutions such as bank loans, private equity, equity financing and trade finance.
Investors are more likely to contact these companies to further advance the development of ESG.

3. Financial implications of the application of ESG principles by financial organizations

In general, enterprises hope to achieve the effect of increasing revenues and reducing costs through ESG, and investors can allocate funds more wisely. Together they actively contribute to the positive development of the world. There are a number of ways in which ESG can create value.

1. ESG is associated with new development opportunities

The most direct thing is that companies with a good reputation, diversity and tolerance can gain credibility and trust and help business development. At the same time, many B2B and B2C customers are looking for products and services related to sustainability, which means that there is an opportunity for businesses to explore new markets. According to McKinsey's cross-industry research, 70% of consumers surveyed are willing to pay 5% more for green products with the same performance, meaning that green business can generate higher revenue for businesses.

2. Improve resource utilization to reduce costs

In terms of production and production, by optimizing energy efficiency and reducing electricity and water consumption, we can save money in the long run. A famous example is the 3P plan of the American company 3M - Pollution Prevention Pays (pollution, prevention, payment), also known as the pollution prevention plan. 3M has achieved its goal of reducing waste at source through 4 key methods and has saved at least $2.2 billion since the plan was launched in 1975, including the cost of bulk packaging and waste disposal. The four key points of the plan are the development of environmentally friendly products, the adjustment of production processes and methods, the modernization of production equipment, and the recycling of waste. Businesses should learn from the fact that 3M is committed to innovation and is committed to finding the best ways to reduce emissions while generating revenue.

3. Reducing the risks associated with legal and political interventions

Companies must comply with laws and regulations and comply with ESG standards, which will not only make it easier to obtain government support, but also largely avoid legal and government interference, as well as give more freedom in business development. External interference is an operational risk that can significantly affect corporate earnings and varies by industry. For example, banks have the highest percentage of profits that are affected by external intervention due to high capital and regulatory requirements. Companies that ignore ESG may also be affected by government advertising restrictions, fines, and other business-damaging measures.

4. Increasing employee productivity

Companies that focus on ESG often have a strong sense of purpose. When employees understand that their work is having a positive impact, it often increases motivation at work, which in turn increases overall productivity. In addition, a fair work environment means that the management team can make better use of talent and increase remuneration. At the same time, excellent work results also help employees enjoy their work. Together, the company is better able to attract and retain good employees.

5. Optimize assets and increase ROI

As mentioned above, investing in ESG has the potential to generate higher returns and there is a growing focus on this. Many ESG assets can generate higher returns than non-ESG funds, which is why investors pay close attention to related assets. Companies that do not offer such investment opportunities may fall behind their competitors. The key points of the ESG plan include the scope of the coverage, the strength of the offer, and the potential economic benefits.

These aspects are confirmed by the dynamics of the companies' financial performance. However, the relationship is not direct, since the initial implementation of ESG principles requires significant costs and may not pay off in the short term. However, considering the long-term period, the company increases its sustainability, competitiveness and efficiency.

One of the advantages of investing in ESG is that it is suitable for long-term asset building. Investment in ESG increases the ability to respond to many financial and non-financial risks when social changes are significant, such as changes in the natural environment and economic conditions, changes in values such as human rights and gender, and changes in laws and regulations.

Secondly, investments in ESG contribute to the development of society. By investing in companies that are considering ESG, investors will also help address social issues.

While ESG is suitable for long-term asset formation, short-term returns are not great as the only criterion to decide is whether or not it will be profitable.

In addition to financial information, it is also necessary to research and analyze ESG factors, so choosing investment directions is a troublesome and time-consuming process.

ESG management refers to management aimed at sustainable economic growth while addressing various issues related to the environment, society and governance.

This is consistent with the virtues that investors see, but the environment surrounding companies is changing dramatically, and if they are not doing anything other than their original activities, they can be affected in unexpected ways. Management that ignores social responsibility can become a risk in itself. It can be said that ESG management effectively helps to avoid various risks.

In addition, building a business model that contributes to solving environmental and social problems will create new value for the company, which will lead not only to profit, but also to an improved brand image and superior human resources.

An important element of ESG management is the solution of environmental problems. Typical challenges include limiting greenhouse gas emissions, encouraging the use of renewable energy and recycled resources, and taking action to tackle marine plastic litter. Regardless of the type of industry, sustainable economic activity becomes difficult if we continue to place the burden on the ground.

Also an important issue is the solution of the problem of diversity in corporate operations. The adoption and use of different human resources, ways of thinking and working styles such as race, nationality, age and gender is recognized as a management strategy that enhances the performance and competitiveness of an organization. It is also necessary to take into account the working environment, such as long working hours and a clear disparity between permanent and non-permanent workers.

Corporate governance is a prerequisite for addressing the above environmental and social issues. Building a fair and transparent organization is essential to maintaining trust.

4. Conclusion

The movement to change the interpretation of fiduciary duties in global capital markets can be superimposed on the existence of motives beyond private interest, according to Adam Smith. Initially, as a fiduciary duty, institutional investors were required to act "only" in the interests of their beneficiaries. Based on this interpretation, SRI and ESG investments have in the past been found to be contrary to fiduciary duties and unjustified, and even now they still affect a certain number of institutional investors. However, from 2014 onwards in the United Kingdom and the United States, ESG factors related to financial risk and return should be considered in terms of fiduciary duties. The reinterpretation of this fiduciary duty is a reminder that the investment chain has become wider and more complex, and that limiting it to “only” actions in the interests of beneficiaries will not lead to long-term returns. In the economic development of the post-epidemic era, ESGs are becoming increasingly important, and trade finance is a key part of increasing global capital liquidity.

This is where we can see social sympathy. Motives that go beyond personal interests eventually lead to private interests, and they never conflict. As of 2016, Europe accounted for 53% of the total global investment in ESG, while the US accounted for 22%, and ESG is still in its infancy in Russia. However, many companies are actively seeking to implement these principles, since fiduciary obligations and investing in ESG are not mutually exclusive. In terms of fiduciary duties, ESG factors should be taken into account, which means a balance between "rationality" and "empathy" in the capital market.

Acknowledgements

The study was supported by the Russian Science Foundation (Project No. 23-18-00756)

References

[1] Karminsky A. M., Egorova A., Chigireva D. A. Ecological, Social and Governance Impact on the Company's Performance: Information Technology Sector Insight, in: 9th International Conference on Information Technology and Quantitative Management Issue 214. Elsevier, 2022. P. 1065-1072.

[2] Grishunin S., Suloeva S., Nekrasova T., Egorova A. Study of Relationship Between the Corporate Governance Factors and ESG Ratings of ICT Companies from the Developed Markets, in: Internet of Things, Smart Spaces, and Next Generation Networks and Systems: 21st International Conference, NEW2AN 2021, and 14th Conference, ruSMART 2021, St. Petersburg, Russia, August 26–27, 2021, Proceedings Issue 13158. St. Petersburg : Springer, 2022. P. 158-169.

[3] Alexandra A. Egorova, Sergei V. Grishunin, Karminsky A. M. The Impact of ESG factors on the performance of Information Technology Companies, in: The 8th International Conference on Information Technology and Quantitative Management (ITQM 2020 & 2021): Developing Global Digital Economy after COVID-19 Vol. 199: The 8th International Conference on Information Technology and Quantitative Management (ITQM 2020 & 2021): Developing Global Digital Economy after COVID-19. Manchester : Elsevier, 2022. P. 339-345.

[4] Feng, M., Wang, X.“., & Kreuze, J.G. (2017). Corporate social responsibility and firm financial performance: Comparison analyses across industries and CSR categories. American Journal of Business, 32, 106-133.

[5] M. Petitjean Eco-friendly policies and financial performance: Was the financial crisis a game changer for large US companies? Energy Economics, 80 (2019), pp. 502-511