

ESG Strategy in Contemporary Companies as a Corporate Governance Trend

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Abstract: Nowadays, the problem of ensuring sustainable development at the national level and the level of functioning of individual enterprises and organizations is of particular importance and is at the peak of its relevance. This is due to the fact that for quite a long period (one might say, “historical”), the agenda for complying with ESG principles came from Western countries. In today’s realities and an aggravated geopolitical situation, questions about the direction of ESG development on Russian territory and compliance with these principles by the authorities and economic entities are becoming open. The ambiguous future of the ESG agenda in the Russian Federation determines the purpose of this scientific study: to determine the current state of the institutional framework for sustainable development. This paper provides a formal approach to understanding the principles of ESG, presents the conditions on which the sustainable development of economic entities in Russia is built, reviews the legal framework governing sustainable development at all levels of legal authority, provides an overview of the financial market in the context of ESG transformation, and presents the main companies and associations that actively lobby the interests of sustainable development.

Keywords: ESG, corporate strategy, sustainability, business strategy, social responsibility

JEL codes: M14, G34, L2

The ESG agenda has been one of the factors in the sustainable development of contemporary companies for several years. In Russia, the spread of ESG principles does not have such a big impact; it is ignored by most companies. This strategy is mainly followed by large Russian

companies, companies with strong import dependence, or companies that are the object of foreign investment.

The purpose of this scientific research is to determine the current state of the institutional framework for sustainable development. For this task, it is necessary to solve the following tasks:

- To study the theoretical basis of the topic of scientific research;
- To study international and domestic regulatory documents related to sustainable development;
- To conduct an overview of the sustainable finance market and the most active companies actively representing the ESG agenda.

Methodology

Many authors have repeatedly raised the issue of compliance with ESG principles. A. L. Bubnov and A. L. Andrushchenko (2022); E. Yu. Vasilyeva, Yu. O. Bakrunov, and A. V. Oleinik (2022); Yu. M. Tsygalov and S. A. Strizhov (2022); and V. V. Guzyr (2022) raise questions about the general principles of building a system of sustainable development by Russian organizations and enterprises. Such authors as T. G. Sheshukova, K. Yu. Kotova, and N. N. Shakirova (2023); M. V. Grenaderova and A. A. Rocheva (2023); V. V. Perskaya, A. A. Ogryzov, and A. D. Zvereva (2022); O. N. Potasheva and T. A. Korneeva (2020); N. A. Gracheva (2016); and O. A. Polishchuk and N. A. Gracheva (2019) emphasize the specifics of compliance with the ESG principles in Russia and study the analytical support of sustainable development indicators.

In carrying out this scientific research, the authors applied theoretical methods (analysis of previously published scientific materials on the topic and compilation of bibliography), empirical methods (study of scientific literature and regulatory documents), and practical methods (analysis and assessment of the current state of the sustainable financing market).

Results

The economic community perceives compliance with the ESG principles as an indicator of the sustainable development of an economic entity. It is believed that companies that have managed to build their own policy in the ESG format are the most attractive for investors and creditors because much attention is currently paid to the positive reputation of the enterprise.

Table 1 presents the mechanism of influence of the ESG principles on the corporate governance of the company.

Table 1 Mechanism of influence of ESG principles on corporate governance of the company

ENVIRONMENT	SOCIAL	GOVERNANCE
↓	↓	↓
<p>Criteria:</p> <p>1) Ecological production and consumption; 2) Pollution prevention and control; 3) Sorting, recycling, and disposal of waste; 4) Sustainable use and protection of resources; 5) Reducing harmful emissions; 6) Carbon neutrality; 7) Combating climate change; 8) Protection and restoration of biodiversity and ecosystems.</p>	<p>Criteria:</p> <p>1) Labor relations; 2) Issues of diversity and inclusiveness; 3) Labor protection and safety conditions; 4) Human rights and labor standards when working with third-party suppliers, customers, and society in general; 5) Social support projects, etc.</p>	<p>Criteria:</p> <p>1) Long-term strategy of the company; 2) Remuneration of managers; 3) Issues of corruption; 4) Cyber security; 5) Company management; 5) Internal and external audit; 6) Internal control mechanisms; 7) Rights of shareholders.</p>
↓	↓	↓
SUSTAINABLE DEVELOPMENT		

Source Compiled by the authors

Thus, based on Table 1, we can conclude that the ESG principles agenda offers companies a sustainable development strategy that includes the following aspects:

- 1) Environmental principles are a form of interaction between the enterprise and the external environment. This principle encourages companies to plan their economic activities by optimizing resources and leaving a positive effect on the development of adjacent territories (regional development, public-private partnership, and ecological footprint).
- 2) Corporate social responsibility as a determinant of sustainable formation is the solution to many social problems. The definition of this element of the ESG agenda can be taken from two sides. If we consider the observance of this principle by an economic entity, then its meaning lies in the fulfillment of socio-economic obligations to society. On the other hand, the presence at the enterprise of a system of corporate social responsibility creates favorable conditions for participants in the external and internal environment of the company.
- 3) Corporate governance is of the greatest interest to investors. The factors that characterize this element are called “non-financial,” they reflect the management component: anti-corruption policy, working environment in the company’s offices, transparency of all reporting, and corporate culture.

The ESG transformation began in the West. Russian companies perceive this phenomenon in a rather ambiguous sense. A feature of the spread of ESG principles in Russia is that the initiative for their implementation in economic relations comes from the state. It can be argued that the ESG agenda is formed in the Russian Federation due to the following:

1. Regulatory and enforceable standards;
2. Motivational base (favorable conditions for a responsible manufacturer);
3. Formation of voluntary commitments by setting targets.

Thus, many scoring and rating agencies, when conducting a comparative analysis of Russian companies, rely on the principle of a checklist with a list of mandatory standards, analyze the practice of their compliance and violation, assess the motivation of companies in compliance with sustainable development goals, and analyze the volume and structure of financial investments in ESG development.

However, there is no single methodology for assessing the quality of compliance with ESG principles in Russia. The legal field, which affects the activities of Russian organizations at the time of regulation of their sustainable development to some extent, is a number of legal documents of different levels of the legal hierarchy. Let us consider what regulations companies need to rely on to comply with the ESG strategy (Table 2).

Table 2 Legal framework for ESG regulation – transformations in Russia

	Level	Regulations
1	Russia's international obligations and their consolidation in Russian legislation.	<ul style="list-style-type: none"> • Decree of the Government of the Russian Federation “On measures of state regulation of the consumption and circulation of substances that destroy the ozone layer” (February 18, 2022 No. 206). • Order “On approval of the national action plan of the first phase of adaptation to climate change for the period until 2022” (December 25, 2019 No. 3183-r). • Order of the President of the Russian Federation “On the reduction of greenhouse gas emissions” (November 4, 2020 No. 666).
2	System of country goals for sustainable socio-economic development.	<ul style="list-style-type: none"> • Order of the President of the Russian Federation “On the national development goals of the Russian Federation for the period up to 2030” (July 21, 2020 No. 474).
3	System of acts regulating the corporate sector.	<ul style="list-style-type: none"> • Environmental legislation; • Legislation regulating social obligations; • Corporate governance.
4	Rules and conditions for attracting sustainable	<ul style="list-style-type: none"> • Bank of Russia Regulation “On securities issue standards” (December 19, 2019 No. 706-P (as

	Level	Regulations
	financing.	<p>amended on July 4, 2022)).</p> <ul style="list-style-type: none"> • Decree of the Government of the Russian Federation “On approval of criteria for sustainable (including green) development projects in the Russian Federation and requirements for the verification system for sustainable (including green) development projects in the Russian Federation” (September 21, 2021 No. 1587) (green and adaptation projects).
5	Recommendation Documents.	<ul style="list-style-type: none"> • Segment of guidelines and best practices for the formation of responsible behavior and sustainable development. • System of voluntary standardization and certification, recommendations of international organizations.

Source Compiled by the authors based on (Central Bank of the Russian Federation, 2019, 2021; Government of the Russian Federation, 2019, 2021, 2022; Presidential Executive Office, 2020a, 2020b)

Table 2 shows that the system of legislative regulation of ESG transformation in Russia can be represented by five levels. The first level is a projection of Russia’s international obligations on domestic legislation. For example, the Russian Federation was a party to the Vienna Convention and the Paris Agreement, which led to the adoption of certain legislative documents in the field of air emissions. The key reference point for companies in the field of ESG policy is precisely the third block of the presented regulatory framework. However, legislative recommendations and obligations in this area are currently rather vague.

The only document that could set out in the most specific form the necessary requirements for Russian companies is the Information Letter of the Bank of Russia dated July 12, 2021 No. IN-06-28/49. This document contains guidelines for the formation of non-financial reporting. Non-financial reporting should be understood as a document containing additional information about the ESG context, which was not included in the accounting (financial) reporting and reflects the organization’s strategies, missions, and values in the field of sustainable development. The composition of non-financial reporting on the recommendation of the Bank of Russia is as follows:

- Information about corporate governance in the company (business model, policies, and procedures).
- Summing up the implementation of policies and procedures.
- Description of the main risks and opportunities, as well as a description of how the company manages these risks and opportunities.
- Key non-financial performance indicators (Grenaderova & Rocheva, 2023; Potasheva & Korneeva, 2020; Sheshukova et al., 2023).

Methodological recommendations of the Bank of Russia are not mandatory. Therefore, not all Russian companies publish non-financial statements. There is practically no competition among companies for compiling non-financial reports. If competitors do not report on non-financial reports, then the company is not interested in generating such reports. A company that generates non-financial reporting can acquire the following competitive advantages:

- Increasing the level of corporate governance. Maintaining non-financial reporting increases the degree of awareness of management about the company's work;
- Improved competitiveness. The availability of information about the production and technological aspects of the company's work increases the degree of confidence of potential customers and consumers and makes the company more competitive;
- Leveling non-financial risks and cutting costs.
- Improved financial performance. Practice shows that the transparency of the generated non-financial reporting increases the value, liquidity, and financial results of the company.

However, Western sanctions will greatly affect the implementation of the principles of sustainable development (Chuvychkina, 2022). As a result of the break in partnership with the West, Russia will have to take the path of independent implementation of national green projects (eco-projects) and green investment. Let us highlight three trends in the ESG market based on the results of a social survey:

- 1) Many companies have decided to review their budgets for investing in ESG development. According to 40% of surveyed companies, they decided to cut budgets for green projects. However, 47% of respondents refused to adjust their budgets. The data obtained suggest that eco-projects should not be expected in the near future. However, this does not mean that the relevance of ESG among Russian companies is fading away. Rather, in view of the aggravation of the external economic situation, the conduct of the ESG policy is becoming an internal affair of Russian companies.
- 2) The events of 2022 have severely limited the access of Russian business to Western capital markets. Many foreign companies have suspended cooperation. Under the current conditions, Russian business will be forced to restructure their activities, focusing on domestic competitors, internal ratings, and non-financial reporting criteria. According to the survey results, more than 50% of the surveyed companies plan to adjust their ESG policy. Thus, the priority for Russian business is corporate social responsibility and not environmental aspects, which have been the main interest of manufacturers for a long time.
- 3) With the release of the Information Letter of the Bank of Russia, which regulates the methodological aspects of the formation of non-financial reporting, many companies are expressing interest in verifying these reports. This means that it is important for Russian business to show stakeholders that all disclosed metrics are reliable, and ESG is at the methodological level (information collection, disclosure, and verification processes). About half of those surveyed are preparing reports in 2023.

Many large companies are not curtailing their ESG transformation activities. In 2022, leading companies in sustainable development formed the national ESG Alliance. This association has a wide range of areas of work that popularize the ESG transformation in Russia (Figure 1).

The mechanism of work of the ESG-Alliance	
Mission Facilitate the transition to a sustainable model for the development of the Russian economy through partnership and consolidation of the efforts of stakeholders to preserve the environment, the well-being of society, and long-term business growth.	Target Contribute to the creation of favorable conditions for all Russian business to fully realize its potential in the ESG transformation. By helping companies change business models and spreading best practices from industrial giants to smaller players, we create an inclusive and non-competitive framework for entrepreneurs to implement ESG initiatives.
Areas of work	
Creation of online infrastructure for navigation in the Russian and international ESG space	Participation in national and global regulatory processes related to aspects of ESG
Research activities	Educational activities
Promoting the theme of sustainable development in Russia and abroad	Sustainability Innovation and the ESG Space
Participants: Sberbank, Avtoban, AFK Sistema, Gazprom Neft, EuroChem, Kolmar Group, Metalloinvest, Uralchem, Polyus, Enlightenment, RUSAL, R- Pharm, SIBUR Holding, Solar Systems, SUEK, T Plus, TECHNOMICOL, Transmashholding, Delo Management Company, Uralkali, Pharmstandard, Unilever Rus, En+ Group, Eurasian Resources Group, Mercury Retail Holding PLC, O1 Properties, Vos'hod Development, and X5	

Figure 1
 Functioning of the ESG Alliance.

Source Compiled by the authors based on (National ESG Alliance, n.d.)

The activation of ESG in Russia is evidenced not only by the formation of a special association for sustainable financing but also by the dynamics of the market (Figure 2).

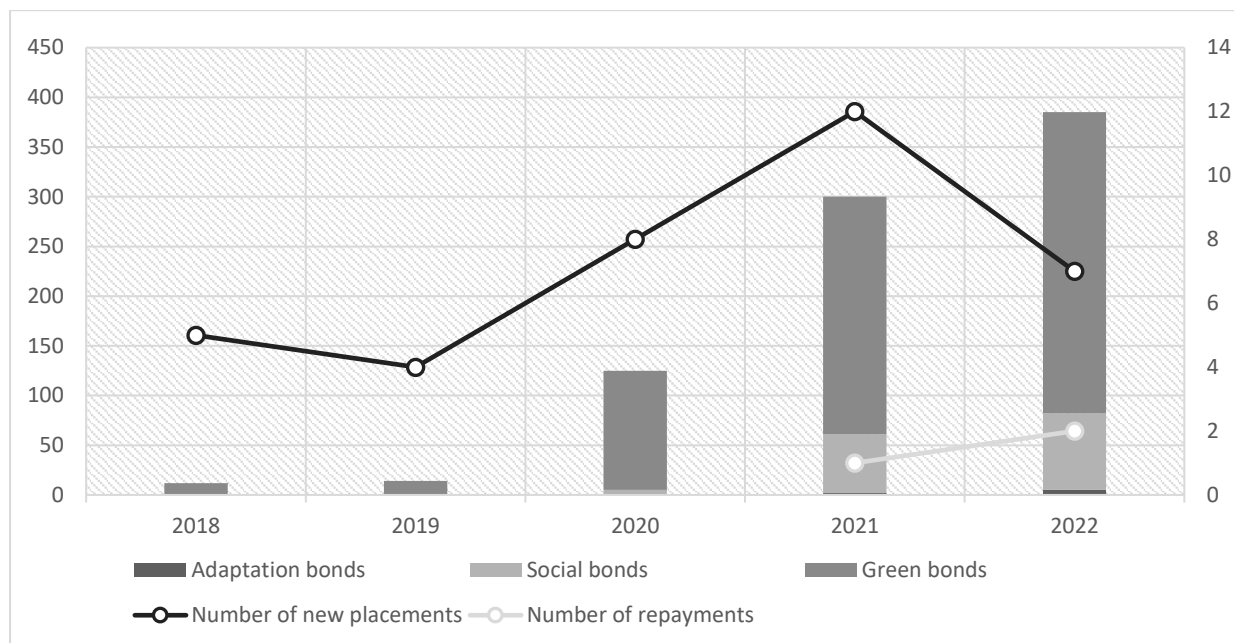


Figure 2

Dynamics of the sustainable development market in Russia, billion rubles

Source Compiled by the authors based on (Mikhailov & Partners Group, 2023; National ESG Alliance, n.d.)

In the financial market, there is an increase in the number of financial instruments: green, social, and adaptive bonds. Overall, the size of the sustainable finance market has increased. Growth rates slowed down and returned to 2020 levels. At the end of 2022, the ESG bond market is still represented by several large state-owned issuers (Katasonova, Yu., & Galiyeva, G., 2023).

Discussion

Considering the results of this work, we can say that its goal has been achieved, and the tasks set have been fulfilled. The peculiarity of this work is that it compared the current state of the ESG agenda with the regulatory framework, which defines the key areas of sustainable development.

Conclusion

Summing up, it should be said that the ESG transformation of business in Russia is in a very ambiguous state. On the one hand, many large companies are becoming more active and putting the sustainable development of their business on the principles of ESG. There is an expansion of the market infrastructure and its modernization.

On the other hand, the legislative framework for regulating the sustainable development of enterprises and organizations in Russia is at the initial stage of development. There is an active interest on the part of the state, which is characterized by the expansion of the green bond market.

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