https://doi.org/10.31891/2307-5740-2024-332-1
UDC 334.72(477):005.511

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ASSESSMENT OF THE READINESS OF UKRAINIAN ENTERPRISES TO TAKE INTO ACCOUNT ESG FACTORS WHEN PLANNING BUSINESS STRATEGIES

The question of sustainability has long been an integral part of the DNA and development strategy of any size enterprise. Sustainability is a set of enterprise initiatives based on its values, such as initiatives related to the implementation of the UN's 17 Sustainable Development Goals, environmental activities, and corporate social responsibility. In the general concept of "sustainable development goals," there is primarily a vector on which the top management of the enterprise or any other business entity can orientate in the development of a strategy. In contrast, ESG is a component of the entire business environment and includes three fundamental pillars of the strategy: environmental, social, and governance sustainability. ESG is always a hidden part that shows the potential of the enterprise to both management and investors. Today, compliance with ESG principles becomes not only a requirement of regulators and international financial organizations but also a desire of management and business owners. But is there a correlation between ESG programs and the financial results that the enterprise demonstrates? According to the results of the KPMG study "Business Leaders' View in Ukraine 2021," almost half of the leaders of Ukrainian enterprises see an increasing demand from stakeholders for the introduction of ESG principles into their business strategies. However, only 14% of executives believe that their ESG programs improve financial results. In the world, this figure is four times higher - 52%. Nevertheless, the topic of ESG has turned the world, thinking, and approach to doing business upside down.

Keywords: sustainable development, ESG factors, climate neutrality, decarbonization, stakeholders, ESG reporting.

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ОЦІНКА ГОТОВНОСТІ ПІДПРИЄМСТВ УКРАЇНИ ДО ВРАХУВАННЯ ESG-ФАКТОРІВ ПРИ ПЛАНУВАННІ БІЗНЕС-СТРАТЕГІЙ

На світовому інвестиційному ринку з'являється новий імператив – вимога до підприємств враховувати фактори ESG у своїх бізнес-стратегіях і надавати публічну звітність про свою відданість цим факторам. Якщо українські підприємства не врахують цю довгострокову тенденцію, то доступ до капіталу стане значно дорожчим або навіть унеможливленим.

З 1993 року ООН надає допомогу Уряду України в розробці рішень щодо переходу від планової до ринкової економіки. Розбудова «зеленої» економіки в Україні є наріжним каменем Угоди про асоціацію з ЄС, а підтримка «зеленого» та сталого відновлення після пандемії COVID-19 стала ключовим напрямком підтримки уряду України від ООН. Перехід до зеленої економіки та кліматичної нейтральності відповідно до вимог ЄС вимагатиме відмови від старої та неефективної економічної діяльності, заснованої на викиді вуглецю, шляхом розробки та впровадження абсолютно нових бізнес-моделей. Ця нова бізнес-модель має базуватися на низькому вмісті вуглецю в продуктах і послугах, що вимагає впровадження системи моніторингу, звітності та перевірки (MRV) і кращого управління ризиками, пов'язаними з кліматом. Ці заходи будуть пов'язані зі значними технічними проблемами, а для впровадження необхідних змін знадобляться величезні приватні інвестиції. Перехід до зеленої економіки також вимагатиме налагодження інфраструктури фінансового ринку, а стале фінансування стало ключовим напрямком підтримки ООН для Уряду України.

В роботі проаналізована практика впровадження ESG-принципів підприємствами України, важливість врахування ESG-факторів при формуванні корпоративної бізнес-стратегії та розкритті публічної інформації щодо виконання зобов'язань в контексті ESG; підкреслено важливість врахування соціальних аспектів програми ESG; продемонстровано зв'язок між стратегією ESG та фінансовими результатами підприємства.

Ключові слова: сталий розвиток, ESG-фактори, кліматична нейтральність, декарбонізація, стейкхолдери, ESG-звітність.

STATEMENT OF THE PROBLEM IN A GENERAL FORM AND ITS CONNECTION WITH IMPORTANT SCIENTIFIC OR PRACTICAL TASKS

A new imperative is emerging in the global investment market – the requirement for enterprises to consider ESG factors in their business strategies and provide public reporting on their commitment to these factors. If Ukrainian enterprises do not take this long-term trend into account, access to capital will become significantly more expensive or even impossible.

Since 1993, the UN has been providing assistance to the Government of Ukraine in developing decisions on the transition from a planned to a market economy. Building a green economy in Ukraine is a cornerstone of the Association Agreement with the EU, and supporting green and sustainable recovery after the COVID-19 pandemic has become a key area of UN support for the Government of Ukraine. The transition to a green economy and climate neutrality in line with EU requirements will require a shift away from old and inefficient carbon-based economic activity by developing and implementing entirely new business models. This new business model must be based on low-carbon content in products and services, which requires the implementation of a monitoring, reporting, and verification (MRV) system and better management of climate-related risks. These measures will be associated with significant technical challenges, and huge private investments will be needed to implement the necessary changes [1]. The transition to a green economy will also require the adjustment of the financial market infrastructure, and sustainable financing has become a key area of UN support for the Government of Ukraine.

ANALYSIS OF RESEARCH AND PUBLICATIONS

Despite the widespread recognition of ESG principles, there are ongoing disputes regarding the necessity of their application in the operational management of the enterprise or during strategic decision-making. In particular, on the one hand, some researchers [2-3] recognize the principles underlying ESG as a vague construct that requires the enterprise to increase the level of operating costs and give up shareholders' capital. Other researchers [4-5] claim that investing in projects that support the principles of ESG provide companies with reputational advantages, increase investor confidence, and optimize the use of resources, creating new market opportunities that may ultimately be positively received by the capital markets.

At the end of the 20th century, studies of ESG were supplemented with environmental indicators. These studies, some of which are reported in [6], suggest that although environmental pollution indicators tend to affect stock market performance, there is also an asymmetric sensitivity of stock returns to environmental news. For example, results of analytical research [7-8] highlight evidence that stock price increases following positive environmental information about a firm are smaller than price decreases in response to negative news.

The integration of ESG standards into business strategy and organizational structure or management involves coordinating activities in accordance with three main principles: environmental, social and corporate responsibility. This approach stems from the concept of the Triple Bottom Line, also known as “people, planet, profit”. It was proposed in the 90s of the 20th century to draw the attention of business owners and investors to the need not only to earn profits, but also to take into account the human factor and environmental factors, which ultimately contributes to increasing the sustainability of any business. That is, the idea of implementing ESG standards assumes that business is more effective if consumer value is created for all stakeholders: employees, customers, suppliers, and society in general, considering the environment, not just owners.

Since 2018, the European Commission has been actively developing and implementing concepts of corporate environmental performance in EU countries: a reference methodology and several initiatives have been developed to apply standards for the methodology of low-carbon benchmarks; the Sustainable Growth Financing Action Plan was adopted, which is, in particular, focused on compliance with environmental requirements and pollution control. In 2019, the EU adopted the Green Deal - a new EU economic development program based on reducing the impact on the environment and achieving climate neutrality by 2050.

FORMULATION OF ARTICLE GOALS

The purpose of the article is to study the evidences of ESG practices, their prerequisites and scientific foundations, as well as to study the current stage features of the world economy development in the context of the use of tools and standards that allow evaluating the positions of enterprises in the context of ensuring sustainable development.

OVERVIEW OF THE MAIN MATERIAL

Risk management of sustainable development is an essential part of sustainable financing. Risks of sustainable development can arise in environmental, social, and business contexts and negatively impact the value of investments. For retail and corporate clients and investment objects to make fully informed decisions, it is important for them to be knowledgeable about all sustainable development risks and the impact of sustainable development on business, as well as having access to information regarding sustainable investments. Additionally, they should have the right to assess the social and economic roles of financial products. Disclosure of information regarding environmental, social, and governance (ESG) risks is one of the key components of sustainable financing policy, and these factors should be considered when developing recovery packages, such as the one being implemented in Ukraine.

The COVID-19 pandemic and military aggression have served as reminders of people's vulnerability to the environment and have increased the focus on environmental issues by the US, EU, and China, providing a new impetus for the attention to ESG principles. The "green course" and decarbonization for enterprises worldwide are becoming regulatory requirements that shape new rules of the game for businesses. Enterprises worldwide, including those in Ukraine, are required to modernize and rethink their business models, taking climate factors into account. International investors are increasingly interested in investing in enterprises that know how to respond to the challenges facing the modern world. According to research by the CFA Institute, 76% of institutional investors and 69% of retail investors are interested in ESG investments. According to Bloomberg, global ESG assets can exceed $53 trillion by 2025, representing over a third of the projected total managed assets of $140.5 trillion.

Decarbonization is becoming an essential component of ESG principles as a condition of sustainable development. This trend is supported by the increasing regulatory pressure to comply with ESG practices [9]. For example, the World Climate Conference took place in Glasgow in autumn 2021, and countries have pledged to reduce greenhouse gas emissions. Consequently, we can expect increased demands for enterprises on a legislative level. The economic downturn caused by military aggression has made it necessary for governments to create stimulus packages for recovery. The estimated cost of recovery is over $10 trillion, with part of this funding directed towards addressing climate issues. For example, the EU plans to allocate about one-third of the funding towards these goals. Many companies on the Fortune 500 list have already included decarbonization in their goal strategies, such as accelerating the transition to renewable energy sources, developing new products to reduce greenhouse gas emissions, relocating production capacities, investing in reducing carbon emissions, and optimizing the use of tax benefits. This is not only a step towards increasing the social responsibility of such companies, but also affects the company's value. In 2020, an interesting trend was observed on the American and Asian markets. Companies with higher ESG factors and a "green" production status saw an increase in the value of their shares, while companies with low ESG performance or without the status saw a decrease in their value. The transition to zero carbon emissions creates new business potential, including new markets, products, and price changes. For example, many global automobile industry enterprises are now transitioning from high CO2 emission products to low emission electric cars or emission-free electric vehicles. For instance, Jaguar Land Rover will transition its Jaguar cars to electric models only by 2025. Volvo states that it will do so by 2030, and GM by 2035. These steps pursue a double goal - increasing revenue and reducing carbon emissions [10].

Today, integrating ESG principles is a business imperative. Key stakeholders expect enterprises to have a positive impact on a range of activities, from promoting diversity to addressing planet protection issues.

Social issues are being brought into focus. Thanks to the acceleration of digitalization, the world has not only become more dynamic but also more controversial and fragmented. Social tension is increasing in economically developed countries, with the focus on eliminating inequality. Leaders are aware of the emergence of corresponding public sentiments, and consulting and rating agencies' research shows that they recognize the role that enterprises can play in providing general returns to shareholders and social benefits. Nearly half of the respondents in Ukraine (47%) and two-thirds worldwide (67%) are now talking about a demand from stakeholders, including investors, regulators, and customers, for increased reporting and transparency on ESG (Environmental, Social, and Governance) issues. This demand is characterized as significant and substantial by 30% in Ukraine and 58% of respondents worldwide, with institutional investors represented as exerting the most pressure – 67% in Ukraine and 52% worldwide.

Today, the focus is on the social aspect of the ESG program, where 81% of leaders remark, "The pandemic and military aggression have forced us to shift the emphasis onto the social aspect of our ESG program." However, consulting agency research has also revealed a deep contradiction between the responsibility that leaders believe they have for progressing the social aspect of ESG and their ability to fulfil expectations in the critical area of diversity. On the one hand, 71% of leaders have declared that they increasingly will not assume personal responsibility to achieve progress in resolving social issues. On the other hand, over half (56%) of respondents acknowledge that it will be difficult for them to justify these expectations given that the public, investors, and the government are rapidly growing concerned about diversity, equality, and inclusion (DEI). Moreover, 46% of respondents claimed that the negative impact of the global pandemic on women in the workplace complicates their goals to achieve gender parity at the executive level. To achieve progress in DEI within organizations, leaders possibly should act in two directions. Firstly, actively listening to their employees' opinions to understand which DEI aspects are essential to them. Secondly, setting clear and measurable goals to achieve progress regarding these priorities [11].

Measures aimed at limiting climate change and reducing carbon emissions have never been more critical than they are now. The latest report from the United Nations Intergovernmental Panel on Climate Change (IPCC), published in August 2021, predicts significant progress in global warming, with temperatures expected to increase by 1.5°C by 2040. To make progress in addressing sustainable development issues, including climate change and decarbonizing the economy, leaders plan to invest significant funds in sustainability, with 24% in Ukraine and 30% of leaders worldwide planning to allocate over 10% of their income towards sustainable development.

The public increasingly demands more ambitious goals in the ESG field. But are leaders taking the necessary steps to implement such goals? Today, leaders are those who can fulfil the mission of the enterprise and respond to society's increased expectations, while maintaining stable operations through digital innovation. Neither can be accomplished in a vacuum, with three-quarters (75%) of global leaders stating that their investments in digital technologies and ESG are inseparable. As leaders plan to allocate significant funds to sustainable development programs, it is essential that their investments in digital technologies meet their ESG needs. However, while enterprise leaders consider social and environmental priorities key, they are less confident about the link between ESG programs and financial results. As shown in Figure 2, more effort is needed to ensure the link between ESG strategy and financial results. While 52% of high-growth enterprise leaders (those anticipating revenue growth of over 5% annually over the next three years) believe their ESG programs will improve financial results, the overall survey results decline to 37%. Nearly a quarter (24%) of respondents' state that implementing ESG programs could lead to decreased financial results, with 3% of Ukrainian leaders sharing this view and 77% of Ukrainian leaders describing a neutral or minor impact of ESG on financial performance. Leaders say that their organizations are trying to report on ESG performance results in a format that is relevant to stakeholders, such as investors. 42% of leaders cite one critical challenge that impedes reporting ESG program results to key stakeholders, this challenge is speaking holistically and persuasively about ESG implementation [9, 13]. The preparation of the right reporting is crucial, as investor attention to ESG activities of activities is increasing: 58% of global and 30% of Ukrainian leaders face increased demands from stakeholders such as investors and regulators for ESG reporting.

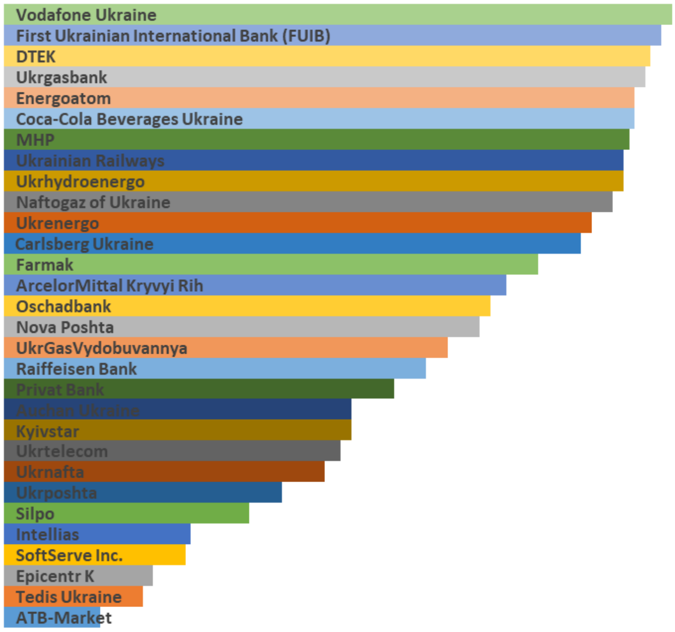

Fig. 1. Results of the ESG-index of companies' transparency in Ukraine [13]

CONCLUSIONS FROM THIS RESEARCH AND PROSPECTS FOR FURTHER EXPLORATION IN THIS DIRECTION

Research from multiple consulting and rating agencies shows that a significant number of enterprise leaders are still uncertain about the positive financial impact of ESG programs. This is a sign that ESG programs serve many goals. For example, they may ensure compliance with regulatory standards or contribute to solving important ESG issues for local communities, such as diversity and equality. To ensure that ESG also contributes to financial growth, leaders must focus on key issues such as identifying the most important ESG program investments needed to achieve long-term benefits, such as decarbonization; investing in digital solutions to develop approaches to harness opportunities and overcome sustainable development risks; and understanding how ESG initiatives can directly stimulate revenue growth through opportunities for new innovative products and services; establishing indicators and standards for reporting results in ESG activities that determine the level of ambition and ensure that the enterprise can communicate compelling and comprehensive information about ESG to investors and other stakeholder groups.

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