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ESG in the Developing Economies – Does it Matter?

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ABSTRACT: Environmental, Social, and Governance- ESG- an acronym coined in 2005, has been steadily growing until recently. Across industries, geographies, and company sizes, organisations have been allocating more resources toward improving ESG. Investors expect their assets to be a force for good, or at least not to harm. Approaches range from avoiding companies or sectors deemed to fail on ethical grounds to active engagement with companies. Exclusionary screening is the most prevalent approach to ESG investing and may focus on individual stocks or entire sectors. The environmental component of ESG and responses to climate change has driven a significant part of ESG growth. However, other components of ESG, particularly the social dimension, have also been gaining prominence. In the wake of the war in Ukraine, the ensuing human tragedy, and the cumulative geopolitical, economic, and societal effects, critics have argued that the importance of ESG has peaked. In the future, today’s preoccupation with ESG may be remembered as merely a fad and go the way of similar acronyms used in the past. This study explores the general concept of ESG in developing economies, its evolution and key components, and the importance and critical lens of ESG.

KEYWORDS: Environment, Social, Corporate Governance, ESG, ESG evolution, strategy, key components

INTRODUCTION

The acronym ‘ESG” stands for Environmental (having to do with the natural world), Social (relating to the lives of human beings), and Governance (encompassing countries, jurisdictions, or broad stakeholder groups), which are the principles used in corporate management and investment (Henisz, Koller & Nuttal, 2019). ESG investing is an investment strategy that incorporates non-financial criteria and the investment's expected financial returns into the investment decisions. These non-financial criteria allude to a company’s impact on the environment and its impact on pressing social issues (Winegarden, 2019), such as gun violence or gender-based violence. The criteria also include how a company treats its employees, vendors, and other business partners.

Since the origin of ESG in 2005, and until recently, its fortunes have been steadily growing (McKinsey, 2022). In demonstrations of the abovementioned, there has been a fivefold growth in internet searches for ESG since 2019, even as searches for "CSR" (corporate social responsibility)—an earlier area of focus more reflective of corporate engagement than changes to a core business model—have declined (Pérez *et al*., 2022). In several jurisdictions, reporting ESG elements is mandatory or under active consideration. The Securities and Exchange Commission (SEC) is considering new rules requiring more detailed disclosure of climate-related risks and greenhouse gas (GHE) emissions in the United States. Additional SEC regulations on the other facets of ESG have also been proposed or are pending (Pérez *et al*., 2022).

According to Winegarden (2019), ESG programs often make sense; however, as documented by many studies, these programs can also be detrimental to the organisations' financial performance. Therefore, investors must take an individualised and objective view to evaluate the merits of ESG-related shareholder proposals effectively or when considering an ESG investment strategy. These assertions could be more applicable to developing economies, particularly to organisations operating in Africa, where the economic growth and development are still weak relative to that of the developed economies of Europe and Northern America. In addition, the literature on ESG happens to “lean” towards developed economies, where data and variables to measure ESG reporting are collected and defined. Furthermore, these variables and data are not universal, and different industries, regulators, and jurisdictions use their metrics. This results in some time lag in developing policy and regulations surrounding the subject of ESG in developing economies. In some instances, developing economies report on ESG based on criteria derived from international organisations operating in their jurisdictions or adopted from international regulatory bodies.

Many ESG goals or policies that many organisations are implementing are above the legal requirements that the organisations are required to meet. Many institutions take ESG as something good for the brand but not foundational to the strategy of the company ((Pérez *et al.*, 2022). These institutions presume this as additive and occasional.

ESG in the Developing Economies – Does it Matter?

As the ESG world briskly develops, organisations are called upon to account for the issues on ESG throughout their value chain, including in areas beyond their direct control. These requirements could pose reputational and operational risks that could result in economic losses as the value chain is often complex and transnational. Recently, the disruptions in the global supply chain caused by the Covid-19 pandemic, the Russia-Ukraine conflict, and severe climate changes (similar to the resultant floods in Kwazulu-Natal in South Africa during May 2022 and Pakistan in June 2022, are among the factors that continue to shock the world. Regulators, consumers, and investors also demand organisations account for ESG factors throughout their value chain in addition to traditional compliance factors. Therefore, investors and researchers must objectively work on the merits of ESG tailored distinctively to their needs.

LITERATURE REVIEW

As the concept of ESG evolves worldwide, investors, shareholders, regulators, and policymakers (recently) measure the performance of organisations by the organisations' contribution to the environment, the socially responsible investment in people (business relationship with surrounding communities, employees, supply chain and customers) and the internal corporate governance of the organisation; in addition to the use of the financial ratios. Although the literature on ESG has grown in developed economies, more work still needs to be done in other jurisdictions. In their study to assess the business case for ESG practices in Africa, Johnson, Mans-Kemp, and Erasmus (2019) attest that previous research on the relationship between ESG and corporate financial performance is conducted in the developed market context in the main. This attestation is supported in similar research studies by Balatbat, Siew, and Carmichael (2012); Ferrero-Ferrero, Fernández-Izquierdo, and Muñoz-Torres (2016); Nollet, Filis, and Mitrokostas (2016); Pasquini-Descomps and Sahut (2013); Velnampy and Pratheepkanth (2013). According to Aaltonen (2013), research performed on ESG practices on companies doing business in developing and emerging markets is limited.

Henisz, Dorobantu, and Nartey (2011) provided direct empirical evidence supporting the argument that organisations that increasingly support ESG stakeholders increase their valuations. This analysis holds, provided the objective valuation of the physical assets under its control is held constant. This analysis used panel data on 26 gold mines owned by 19 publicly traded firms from 1993–2008. This analysis has significant implications for further research on ESG to avoid the generalisations of such a finding to organisations operating in different jurisdictions and industries beyond the sample of this study – in particular, developing and less developed economies.

The study by Stocker, de Arruda, de Mascena, and Boaventura (2020) analysed the criteria used to identify and classify the level of engagement between organisations and Stakeholders. The study analysed sustainability reports disclosed by companies operating in the energy sector from about 40 countries. It adopted three stakeholder engagement classification levels: information strategy, response strategy, and involvement strategy. The results show that, although strategic involvement actions are at a high-quality level, they are the least adopted by the companies studied, concentrating their engagement actions at the least complex levels. This result could indicate that organisations are striving for an engagement matrix that is simple to understand and implement. The results support the problematic nature of quantifying the sustainability reports and using different elements in the measurements of the ESG matrix. Organisations, therefore, are informed by the unique factors and regulatory frameworks in their measure of ESG. Stocker *et al.* (2020) propose a matrix of engagement strategies as a tool formed by nine strategic quadrants, providing clear differentiation between engagement strategies to improve sustainability reports and rethink the quality and focus of actions with stakeholders. This study was in the energy sector, which tends to be associated with the environmental criteria of ESG. The ESG practices and risks in the energy sector are highly developed, justifying the energy sector for studies of this nature. The energy sector is associated with the impacts on the climate. It is significant and has implications for future research in developing ESG reporting in other industries or sectors.

Welford (2021) published theoretical and practical contributions about tools and practices associated with businesses' social and environmental responsibilities in the context of sustainable development. The study also published case studies and cross-country surveys of best practices helping organisations improve performance and accountability in these areas. In addition, the study recommended assessing the relative strengths and weaknesses of different approaches to sustainability. It encourages debate over the development of sustainability issues and monitoring the demands made by various stakeholder groups.

A study by Bruno, Esakia, and Goltz (2022) illustrates that no solid evidence supports recent claims that ESG strategies generate outperformance. The study constructed ESG strategies that appeared to outperform popular papers and assess performance benefits to investors when accounting for sector and factor exposures, downside risk, and attention shifts. Simple returns of ESG strategies look attractive, with annualised returns of up to almost 3% per year, however when accounting for exposure to common factors, none of the twelve different strategies constructed to tilt to ESG leaders adds significant outperformance, whether in the United States (US) or developed markets outside the US. Three-quarters (75%) of outperformance is due to quality factors from balance sheet information mechanically construed. ESG strategies do not offer significant downside risk protection either. Accounting for strategies' exposure to a downside risk factor does not alter the conclusion that there is no value-added beyond implicit exposure to common factors such as quality. Bruno *et al.* (2022) further attest that the recent strong performance of ESG strategies can be associated with an increase in investor attention. Although this study does not interrogate the value ESG can provide to the organisation, investors are advised not to look at a better rate of return than similar organisations in the market. Investors will therefore benefit from further research concerning the value added of ESG.

The findings of the study by Bruno *et al.* (2022) seem to support the work performed by Fu (2021), who performed a basic comparison of the top and bottom 50 ranked ESG companies by sector (Chart of the week, 2021) and found that those highly ranked ESG companies have not performed better. However, this is an overly simplistic comparison, with several limitations, such as the fact that the rankings were as of the day of the comparison. Therefore a company might have had different rankings previously.

There is no precise financial cost to companies incorporating ESG considerations. Some studies, such as Serafeim, Eccles, and Ioannou (2014), show that ESG integration leads to positive operational performance. Other studies show that ESG criteria can help investors avoid companies with risk exposures due to practices leading to scandals, lawsuits, and fines. In addition, when a company embraces specific ESG drivers, there may be positive intangible outcomes such as brand reputation, healthy culture, and employee satisfaction as consumers are increasingly seeking products and services that are greener, cleaner, healthier, and more innovative, ESG valuation and investing represent a way for investors to identify which companies are adapting and staying relevant in changing markets (Serafeim *et al*., 2014).

According to Bernardino (2021), people want to work for organisations where they feel engaged and learning. In a recent research in Canada, the organisation Benevity stated that "Today's employees are expecting a greater sense of purpose in the workplace, and 83% of millennials stated that they would be more loyal to an organisation where they can make an impact or difference on environmental and social issues at work (Benevity, 2018). Moreover, once they are in an organisation they identify social programs and want to get involved.

According to Atz, Clark, and Whelan (2021), meta-studies examining the relationship between ESG and financial performance have decades-long history. Almost all the articles they cover, however, were written before 2015. Those analyses found positive correlations between ESG performance and operational efficiencies, stock performance, and lower cost of capital. Five years later, Atz *et al.* (2020) observed exponential growth in ESG and impact investing – mainly due to increasing evidence that business strategy focused on material ESG issues is synonymous with high-quality management teams and improved returns. A case in point: A recent study looked at the initial stock market reaction to the COVID-19 crisis and found that companies scoring high on a "crisis response" measure (based on Human Capital, Supply Chain, and Products and Services ESG sentiment) were associated with 1.4-2.7% higher stock returns (Cheema-Fox *et al*., 2020).

Berg, Kolbel, and Rigobon (2022) investigated the divergence of environmental, social, and governance (ESG) ratings based on data from six prominent ESG rating agencies: KLD, Sustainalytics, Moody's ESG (Vigeo-Eiris), S&P Global (RobecoSAM), Refinitiv (Asset4), and MSCI. The study documented the rating divergence and mapped the different methodologies onto a common taxonomy of categories. The study decomposed the divergence into scope, measurement, and weight contributions. Measurement contributes 56% of the divergence, scope 38%, and weight 6%. Further analysing the reasons for measurement divergence, the study detects a rater effect where a rater's overall view of a firm influences the measurement of specific categories. Because of such inter-rater variance, the results call for better reliability and attention to the generation of data underlying ESG ratings.

The above literature review shows that despite an increasing interest in ESG in developing economies and emerging markets, the need for more research on the ESG phenomenon is evident. In addition, contractions from studies from the developed economies strengthen the requirements for more research in the developing economies that are objective and individualised to their needs, with a universal standard on the list of ESG. As corroborated by Fu (2021), varying regulations impact ESG companies in different industries and may focus on different ways of incorporating ESG principles. Even with advances in technology and more sophisticated analysis tools available now, different opinions on what is relevant and the choice of frameworks to disclose the data make it difficult to measure and compare companies.

The objective of the study

The study's objective is to explore the general concept of ESG, especially in the context of developing economies, its evolution and key components, and the importance and critical lens of ESG. The study further explores the strategies for implementation to succeed in ESG reporting.

The ESG background and its evolution

According to Garber and Jegla (2022), the concept of ESG evolved from John Elkington's 1994 "triple bottom line" approach that recognised the importance of the three elements in generating a sustainable financial return in the world of investing. It has ever since grown increasingly crucial within the economic environment and beyond. This evolution is partly due to pressure from customers, shareholders, and investors who emphasise a wish for organisations to invest responsibly. In addition, the increased attention on ESG worldwide comes with an increased need for compliance and regulatory bodies to assist in mitigating issues such as greenwashing: i.e., distortions about how organisations have assessed ESG criteria in their business practices and investments (Garber & Jegla, 2022). From a regulatory framework point of view, the situation is complicated, as many jurisdictions are still pondering the development of appropriate regulations. Even in developed economies such as the United States, there are few clear

guidelines about ESG standards, and the legislation is being proposed and adopted in a fragmented manner. The literature review shows that developing and emerging markets require more attention.
Various factors have contributed to the continuing adoption by organisations of more sustainable models. The adoption by organisations of such frameworks has evolved over a period - from (i) Corporate Social Responsibility to (ii) Climate Action to (iii) Circular economy and (iv) the current ESG (Deloitte CxO Sustainability report, 2022) as discussed below:

(i) **Corporate Social Responsibility (CSR)** – Howard Bowen initially devised CSR in 1953. – An American economist and businessman. From the inception period, CSA took some time for organisations to "comprehend," Only in the middle of the nineties did organisations start to engage with communities and allow employees to get involved in community volunteering. In today's environment, CSR reaches further than community engagements, as it ensures progress toward sustaining business operations that protect the supply chain and contribute to the shareholder interests, including employees, customers, members of the community, and the environment.

(ii) **Climate Action** – The industrialised nations and economies covenanted the reduction of greenhouse gas emissions by an average of five percent from 2008 to 2012 after the 1997 Kyoto Protocol, with variations on targets for individual countries. Subsequently, after a long period of the circulation of the protocol, Climate Action finally appeared on the corporate radar. Climate change is the sustained change in global or regional weather patterns. Greenhouse gas emissions and the loss of carbon capture systems in the environment, such as trees, oceans, soil, and wetlands, mainly cause climate change. Greenhouse gas emissions are a leading cause of global warming. The three main gases that makeup gas emissions are carbon dioxide, methane, and nitrous oxide. Climate action is what businesses can do to help counteract ongoing climate change. By sector, the food, construction, and fashion industries are the most significant contributors to greenhouse gas emissions representing almost 40% (Deloitte CxO Sustainability report, 2022). The importance of air transportation has become essential to global society. It drives the development of the global economy, including the cultural and social aspects of society. Unlike ground transportation which can use other energy sources (solar power, wind, and hydrogen), air transport depends on liquid fuel. It, therefore, contributes to high greenhouse gases as many people and goods are transported by air worldwide. The sector is also turning to biofuels as a sustainable alternative to power commercial flights.

(iii) **Circular Economy** – Initially, the term Circular Economy appeared in "The Economics of Natural Resources in 1988 and was used to describe an economic system where waste at extraction, production, and consumption stages turned into inputs. The Ellen MacArthur Foundation was instrumental in the diffusion of the concept in Europe and the Americas in the early 2000s. Circular business models move from a "take-make-waste" linear model to a circular model where resources are better managed, products and components reused, and products are designed to be remade using safe and recycled or renewable inputs.

(iv) **Environment, Social, and Governance (ESG) Reporting** - ESG pillars were first referred to in the 2006 United Nations Principles for Responsible Investment (PRI) report. The ESG framework is a powerful and necessary approach to assessing the risks and benefits of focusing on environmental, social, and governance/economic issues.

Outline of the critical components of ESG
ESG is an intricate part of organisations' business, and these elements are intertwined. It, therefore, makes strategic sense for organisations to propose ESG strongly as a value add proposition. There are usually three themes that Sustainability criteria organise around: Environmental, Social, and Corporate Governance (ESG). Organisations in various industries deeply intertwine with (a) environmental, (b) social, and (c) governance (ESG) concerns. Below is an outline of the ESG components.
(a) Environmental
The environmental criteria are about how organisations utilise resources, the impacts of the wastes that organisations produce on the environment, and the consequence to living beings. This phenomenon speaks to climate change as it includes carbon emissions from fossil fuels when organisations use energy and resources for their operations. The use of renewable energy by organisations could affect the environment positively. The environmental criteria also require organisations to manage resources appropriately (such as water, energy, and raw materials), as the inappropriate usage of the resources could result in ecological impacts, including impacts on air quality. This criterion, in the main, refers to the capability to manage resources and prevent pollution, including the energy organisations take in and the waste discharged, the resources needed, and the consequences for living beings. This criterion could include the weather's impact on selling seasons, emission regulation impacting supply chain logistics, plastic use, and packaging. Environmental sustainability mainly impacts three areas: climate, oceans, and biodiversity (Calero, Moraga, and Garcia, 2002). The environment is therefore associated with
(i) Carbon neutrality and zero emissions: An organisation is carbon neutral when it reduces its carbon emission. As the international regulatory environment comes into play, placing organisations under pressure to meet the zero carbon emission targets.

(ii) Carbon footprint: This is to set a baseline for and measure the greenhouse gases a company generates. The footprint calculates emissions generated by electricity, fuel, and waste in a company's supply chain, broken down into direct emissions from sources owned, indirect emissions from purchased energy, and indirect emissions from sources owned by others (upstream/downstream)

(iii) Plastic-based reductions: Companies are starting to eliminate plastics in their operation due to added pressure from consumers and government regulation. This process typically applies to packaging: eliminating, reducing, and replacing plastics, creating packaging-restricted substance lists, compliance, and using raw materials with specific qualifications. It also applies to regulations that governments are passing relating to plastics and taxes.

(iv) Regenerative agriculture: this is a crucial tool to reduce the practice of deforestation and increase the capture of carbon emissions. It combines conservation with agroforestry, creating a sustainable agriculture base and reducing Green House Gas (GHG) emissions.

(b) Social

The way the organisations relate to communities and institutions around which they operate is essential; so is how organisations foster their reputation within the communities and institutions. This criterion includes labour relations (Workforce and Human Capital) and diversity and inclusion – value chain (Suppliers and Customers). The Social criteria refer to an organisation's ability to identify and manage its business impact on people—or the steps a company takes to improve its social impact within its company and the greater community where they do business. This criterion ensures progress toward sustaining business operations that protect the supply chain and contributes to all stakeholder interests (Calero, Moraga, and Garcia, 2002). In summary, Calero *et al*. (2002) attest that the social criteria are associated with the following goals:

(i) Supply chain management: Two-thirds of the average company's environment, social and governance footprint lies with suppliers. A supply chain is the process of making and selling commercial goods and traces all parts of the process, from concept to customer, which goes into creating a consumer product. This process includes the supply of materials, manufacturing of goods, distribution and transportation (logistics), and sale to the consumer.

(ii) Diversity, equity, and inclusion (DEI): Measuring Diversity, Equity, and Inclusion has become a business imperative. DEI covers recruitment, retention, advancement, representation, and pay. Metrics that employers are increasingly capturing include attracting a solid pipeline of candidates from historically underrepresented groups, capturing employee opinion on the diversity of talent, monitoring employee engagement and satisfaction, factoring in diversity into succession planning, and analysing equal pay based on role—not gender or race.

(iii) Human rights and labour practices: This extends to the prohibition of discrimination and harassment, focus on workplace health and safety, commitment to responsible labour practices, and the protection of free speech. But this is no longer just a localized

(c) **Corporate Governance**

Corporate governance issues refer to the internal practices, controls, and practices that organisations espouse intending to govern themselves, comply with the required legislation and regulations, and meet the needs of the consumers, investors, and shareholders' corporate governance issues apply universally across industries. It requires good quality of the boards in organisations by having independent, diverse boards, possessing appropriate skills and qualifications, and leading appropriately. Corporate governance also includes the provision of management incentives, which could include "pay for performance alignment. "In addition, the board of the organisations should be accountable to the shareholders and give them voting rights and the ability to act when the need arises. Essentially governance refers to the organisations' aptitude to establish the policies and leadership structure to ensure sustainability practices are implemented and supported. It deals with the internal system of practices, controls, and procedures adopted by an organisation to administer/govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders. Corporate governance explicitly impacts decision-making and risk mitigation within the organisation. This impact is through corporate sustainability policies and guidelines overseen by the board of directors, managers, shareholders, and stakeholders (Calero, Moraga, and Garcia, 2002). Corporate governance is associated with the following:

(i) Compliance and risk management:

(ii) ESG reporting of "non-financial factors" for investments:

(iii) Consumer and data protection**:** Many companies' business models rely heavily on users trusting that their data will be secure and safe from hackers and the companies themselves. Users want to know that their understanding of how a company uses their information is accurate—something that has not always been true. So, despite improvements, data privacy issues in their full scope have not yet been resolved, positioning ESG investing to play an ongoing role in the information-driven, digital world in which so many participate.

(iv) Anti-bribery and corruption: Anti-bribery and corruption are increasingly necessary for an ESG assessment for any corporation. This shift globally aligns with the long-term trend of reassigning responsibility for compliance matters to businesses over the last decade, as seen in anti-bribery and corruption risk and other compliance areas such as anti-money laundering.

ESG in the Developing Economies – Does it Matter?

The significance of Environment, Social and Corporate Governance

Organisations should be conscious of the significance of sustainability as it relates to the planet's future in general and therefore impacts their business. Therefore, organisations must understand the background before developing a sustainability "strategy." The organisation needs to understand the market environment and its stakeholders to gain some understanding and develop a rationale for the need to change and adopt an Environmental, Social, and corporate Governance strategy. In addition, the organisation must understand how the ESG framework and its many pillars affect the business in terms of risk mitigation, compliance, management and tracking of suppliers, and setting the goals for ESG. According to McKinsey (2021), there are five ways ESG connects to establishing value within the organisation. These ways includes:

(i) **Top-line growth** – ESG attracts business-to-business and business-to-customers with sustainable products and achieves better access to resources through stronger community and government relations

(ii) **Cost reductions** – ESG lowers energy consumption and reduces water intake

(iii) **Regulatory and legal interventions** – ESG achieves greater strategic freedom through deregulation and earns subsidies and government support

(iv) **Productivity uplift** – ESG boosts employee motivation and attracts talent through greater social credibility.

(v) **Investment and asset optimisation** – ESG enhances investment returns by better-allocating capital for the long term and avoids investments that may not pay off because of longer-term environmental issues

The framework for ESG reporting

According to Calero, Moraga, and Garcia (2002), the common thread in looking at ESG reporting is risk mitigation. Organisations need to mitigate risk to themselves financially and reputationally in terms of non-compliance. They need to mitigate risk to remain attractive to investors. Moreover, they must practice sustainability to help boost resilience by shoring up financial resources and streamlining operations.

That may be why after a journey that quickly dates back to the 50s, compliance and risk mitigation have triggered most organisations to stop what they are doing and look up. Nevertheless, if we look at the business case for sustainability, there are as many veritable "bottom-up" reasons for action as there are "top-down." Sustainable enterprises are proving they can unlock a new world of value (Calero *et al*., 2002). Some of the main success factors that organisations could consider to succeed in ESG implementation are as follows:

Greenwashing: Pressure from external stakeholders can lead to "greenwashing." Greenwashing is marketing that portrays an organisation's products, activities, or policies as producing positive environmental outcomes when this is not the case. Greenwashing can undermine market trust and result in the misallocation of capital intended for sustainable investments. For any organisation starting down the sustainability path, it is essential to take the time to become educated and approach sustainability measures from an authentic perspective. Symbolic or misleading gestures aimed at appearing "sustainable" is not wise in the long term.

Material assessments: In sustainability, "materiality assessments" are the backbone of reporting. They help identify an organisation's most "material issues" and determine what to report. A designed materiality assessment is to help enterprises identify and understand the relative importance of specific ESG and sustainability topics in their organisation. This assessment involves looking at various factors from two perspectives: potential impact on one's enterprise and significance to stakeholders.

The international regulatory landscape: While the United States 2019 Pacte Law states that the company's business model should consider social and environmental issues, the companies are not assessing the issues. At the time of writing this guide, the SEC (Securities Exchange Commission) collects commentary on making this compulsory for listed companies. Meanwhile, as of April 6, 2022, ESG laws have become mandatory elsewhere: The FCA (Financial Conduct Authority) has stipulated that UK-registered companies and limited liability partnerships (LLPs) with over 500 employees with an annual turnover of more than £500 million; and all UK Public Interest Entities, are now required to produce a non-financial information statement under existing reporting laws. It is important to note that the impact will not only be on the UK's 1,300 largest companies and financial institutions but also on thousands of businesses in their supply chains. As regulations shift, organisations will become more challenging to shift unsustainable practices outside company walls.

(i) The European regulatory landscape: The much-publicised Green Deal—which seeks to cut greenhouse emissions by 50% by 2030—has been a massive driver of change in the regulatory market of Europe. In the EU, companies also have ESG compliance obligations, and they must do their best to ensure their business qualifies as sustainable for investors in the EU market to notice. The EU Taxonomy Regulation, for example, stipulates six objectives concerning mitigation and accountability. It is the main EU instrument to channel investors' money toward sustainable activities and achieve the bloc's climate goals.

(ii) Beyond investment regulations: If the European Commission succeeds, a Corporate Sustainability Reporting Directive (CSRD)—to extend the scope of the EU Non-Financial Reporting Directive (NFRD) already in force—will come into force in 2023. If adopted, the CSRD will mark the move toward using mandatory EU sustainability reporting standards, including auditing. Moreover, it looks likely that the Commission will also successfully implement its much-debated Circularity Directive. Proposals include extending eco-design beyond energy-related products, tackling unsustainability in textiles, and more excellent consumer protection, including banning vague environmental claims.

Process steps in the development of a sustainable ESG strategy

The scrutiny of the shareholders and the implementation of the ever-changing and newly promulgated regulations impact Organisations. The effects of new regulations and the brunt of investors are felt by organisations regardless of the status position of sustainability. To move forward, they are all challenged with gathering and analysing data, keeping up with ever-changing regulations, developing guidelines, goals, and key performance indicators, as well as the need to control, track and report on performance. The way to address this is to develop a strategic plan with compliance built into it. Before the development of the plan, complete a process to (i) assesses, (ii) build strategy, (iii) operationalise, and (iv) track and report the sustainability initiatives.

Assess: In this process step, organisations must understand the internal requirements concerning the other external factors. These could include regulators, customers, or the supply chain. The organisation should assess the current ESG, which could include gathering data, appraising internal stakeholders on matters of sustainability, and assessing materiality. Once the organisation understands its current position concerning ESG, it will gain the ability to navigate the required frameworks for adherence to sustainability objectives.

Build Strategy: Part of the organisation's sustainability strategy should include the mission, vision, and goals. The strategy should analyse activities that require optimisations and the standards that need to be complied with, including the specific law or regulation. It is critical to map the organisation's sustainability vision and mission to ensure it aligns with its values.

Operationalise: This involves establishing the organisational foundation to integrate and manage sustainability initiatives. The foundation includes rolling out new processes based on efficiency, costs, and ESG-critical key performance indicators, thoroughly mapping risks and regulations and automating processes to all relevant stakeholders. The right technological platform will ensure the organisations' sustainability goals align with the organisation's goals.

Report: The right technological platform gives organisations the power to track and monitor goals—through reports that collect all risk-related information in one place, dashboards with near real-time information on key performance indicators and transparency initiatives, and the ability to share information and communicate disclosures with regulators at the push of a button. It should provide enterprises with robust analytics to monitor process performance, guarantee compliance and turn data into insights and action.

Objections to Environment, Social and Corporate Governance

Perez *et al*. (2022) explored the criticism against ESG. In their assertion, as the concept has gone mainstream and gained support and momentum, it also encountered some criticism. The study categorised the objections to ESG into four categories: (i) ESG as a distraction to what organisations are supposed to do; (ii) ESG is essentially too tricky and therefore not feasible; (iii) ESG is practically immeasurable; and (iv) there is no significant relationship between ESG and financial performance even when ESG can be measured.

(i) ESG as a distraction to what organisations are supposed to do: The primary objective of many business enterprises is to make money in the form of profits, taking into consideration the "direct: risks encountered in doing business. The detractors of ESG view ESG as a hindrance to the organisation's realisation of the primary prize of what they made to do: "making as much money as possible while conforming to the basic rules of the society," According to Perez *et al*., ESG viewed in this perspective, can be presented as something of a sideshow—a public-relations move, or even a means to cash in on the higher motives of customers, investors, or employees.

(ii) ESG is essentially too tricky and therefore not feasible: A second critique of ESG is that, beyond meeting the technical requirements of each of the E, S, and G components, striking a balance required to implement ESG in a way that resonates among multiple stakeholders is too complex. When solving for a financial return, the objective is to maximize value for the corporation and its shareholders. However, what if the remit is broad and the feasible solutions are complex? Solving for multiple stakeholders can be fraught with trade-offs and may even be impossible.

(iii) ESG is practically immeasurable: A third objection is that ESG, mainly as reflected in ESG scores, cannot be accurately measured. In assessing individual E, S, and G dimensions, some critics argue that aggregate ESG scores have little meaning if it captures the required auditable data. Differences in weighting and methodology across ESG ratings and scores providers further compound the deficiency.

(iv) There is no significant relationship between ESG and financial performance, even when ESG can be measured:

The fourth objection to ESG is that positive correlations with outperformance, when they exist, could be explained by other factors and, in any event, are not causative. It would challenge reason if ESG ratings across ratings and scores providers, measuring different industries, using distinct methodologies, weighting metrics differently, and examining a range of companies that operate in various geographies all produced a near-identical score that almost perfectly matched company performance. Multiple factors explain correlations with performance (for example, industry headwinds or tailwinds) and are subject to change. Several studies have questioned any causal link between ESG performance and financial performance. While, according to a recent metastudy, most ESG-focused investment funds outperform the broader market, some ESG funds do not, and even those companies and funds that have outperformed could well have an alternative explanation for their outperformance. (For example, technology and asset-light companies are often among broader market leaders in ESG ratings; because they have a relatively low carbon footprint, they tend to merit higher ESG scores.) The director of one recent study proclaimed starkly: "There is no ESG alpha. In addition to these four objections, recent events and roiled markets have led some to call into question the applicability of ESG ratings at this point. Indeed, the recognised, pressing need to strengthen energy security in the wake of the invasion of Ukraine may lead to more fossil-fuel extraction and usage in the immediate term (Hollinger, 2022). The war and its aftermath may jeopardize the global collaboration required for a more orderly net-zero transition. It is also likely that patience for what may be called "performative ESG," as opposed to what may be called true ESG, will likely wear thin. True ESG is consistent with a sound, well-considered strategy that advances a company's purpose and business model (exhibit). However, many companies today are making significant decisions, such as discontinuing operations in Russia, protecting employees in at-risk countries, organizing relief to an unprecedented degree, and doing so in response to societal concerns. They also continue to commit to science-based targets and define and execute plans to realize these commitments. That indicates that ESG considerations are becoming more—not less—important in companies' decision-making.

ESG in developing economies

The concept of ESG complements traditional financial analysis, as it is a risk analysis framework with factors that could impact the investments – environmental, social, and corporate governance factors. ESG entails responsible investment and does not necessitate foregoing some profits to pursue these objectives (SIPA, 2018).

From the exploration and related literature review, it is evident that there needs to be more research on the environment, social and corporate governance in emerging markets and developing economies. Most of the research focuses on organisations and industries in developed economies. Against this backdrop, it is prudent that more research is conducted in emerging markets to enhance the understanding of ESG and motivate organisations, regulators, and other stakeholders to allocate more time and financial resources to assessing and managing ESG risks. According to the Institute of Directors in Southern Africa (IoDSA, 2016), shareholders risk benefitting over the short run and experiencing severe negative consequences over the long term without giving more attention to sustainable long-term value creation. It is, therefore, significant for emerging markets to look at ESG in an individualised and objective manner concerning the developed economies.

The above supports the work performed by the School of International and Public Affairs (SIPA) at Columbia University in 2018, which attests that developed countries such as the US and Canada have witnessed an increasing rise in ESG investments. This phenomenon corroborated in Japan during the same period as noticed by the Japan Sustainable Investment Forum (JSIF) that ESG investment in Japan amounted to $120 billion – mainly attributed to ESG investing focus by the Japanese Government Pension Investment Fund (GPIF), the largest pension fund with $1, 3 trillion.

On the other hand, the Bloomberg ESG Country Strategic report (2018) noticed a divergent view about the ESG country scores between developed and developing economies. Bloomberg (2018) reported that the most developed economies are the most performing, with most of the best-performing countries in developed markets. The developing economies have the highest ESG score and, therefore, limited ESG investing. This state of affairs indicates that developing economies have higher exposure to environmental, social, and governance risks, and therefore investors are unwilling to invest in the economies. Investors are considering their broader impact on people and the environment and how it could affect their financial performance.

The country-specific ESG commitments are vital for both developed and developing economies; however, the need for more sharing of analytical frameworks and standards hampers ESG investments from moving into developing economies. Initiatives to share are significant as major ESG rating agencies are located in developed economies. They primarily focus on developed markets, applying similar standards to all organisations under their rating, including those from developing economies. Unsurprisingly, jurisdictional and cultural standards biased towards developed economies are also used for developing economies. It is significant for policymakers, investors, and regulators to provide insights to bridge the gap when considering ESG practices adopted by developed economies.

CONCLUSION

Investors, regulators, consumers, and other stakeholders, including employees of organisations, are paying increasing attention to ESG issues. ESG is a broad concept that incorporates various factors across different industries. It signifies the requirements for government agencies and businesses to significantly gather various data required to evaluate their adherence to ESG criteria. As it stands, the future of the corporate culture in organisations worldwide requires organisations and government agencies to continue addressing the significance of ESG as it cuts across all their departments. The pressure from Investors, Legislators, Regulators, international adoption, and customers ensures that factoring in ESG concerns by organisations is essential and is not just suitable for branding or just desirable. It is therefore important to note that organisations that anticipate and prepare for the escalated essential nature of ESG will, in the future, stand out among peers who remain in business as usual.

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