International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

IJIEMR Transactions, online available on 16th Feb 2022. Link :http://www.ijiemr.org/downloads.php?vol=Volume-11&issue=ISSUE-02

DOI: 10.48047/IJIEMR/V11/I02/17

Title **ESG, Sustainability, and Path Forward**

Volume 11, Issue 02, Pages: 130-136

Paper Authors
Ritu Kumar

International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

ESG, Sustainability, and Path Forward

Ritu Kumar
Boston University, Massachusetts, USA
Email:ritzkumz@bu.edu

Abstract: In this study, we looked at the notion of ESG (Environment, Social, and Governance) from a variety of different angles and views. We went back to the beginnings of ESG and looked at the evolution of responsible investing, which began in 1987 and has evolved into what we now know as ESG today. We reviewed the environmental, social, and governance (ESG) from a global viewpoint, as well as its interpretation across diverse economies and geographies. During the meeting, we also addressed the issues that ESG will face in the future, as well as some of the current work that will be useful for ESG and sustainability management in the near future.
Keyword: ESG, Sustainability, Carbon Footprint, Green Bonds, Cryptocurrency Mining

1.0 Introduction

The number of securities regulators and exchanges that acknowledge the importance of ESG (environmental, social, and governance) aspects in investment decisions has risen exponentially during the last few decades. According to research, integrating ESG factors into investments portfolios may result in more stable returns, less volatile stock performance, and overall greater risk-adjusted investment returns. The phrase "sustainable development" was coined by the World Commission on Environment and Development in 1987. This was defined as advancement without jeopardizing future generations' ability to meet their own demands.As defined by Eurosif (2014), ESG integration is "the explicit inclusion of ESG risks and opportunities by asset managers into traditional financial analysis and investment decisions through the use of a systematic approach and an appropriate research source."

According to a current trend, environmental (E), social (S), and governance (G) factors have become more relevant in the assessment and evaluation of organizations in recent years. The Paris Climate Agreement and the United Nations' Sustainable Development Goals (SDGs), both approved in 2015, have accelerated the adoption and monitoring of environmentally friendly corporate practices. There have been recent attempts to increase business understanding of environmental, social, and governance (ESG) policies and concerns, with the objective of convincing firms to see these regulations and issues as part of risk management, rather than as part of corporate social responsibility (CSR) activities (UN PRI, 2018). The United Nations Principles for Responsible Investment (UN PRI), developed in 2007 and modified thereafter, are an example of this kind of work.

The World Bank classified it as such in 2018. (World Bank.2018). When analyzing,

International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

selecting, and managing assets, ESG investment takes environmental, social, and governance (ESG) aspects into account.Climate change, resource efficiency, pollution, biodiversity, and carbon emissions are the most frequent environmental (E) challenges. These include community relations, human rights, and diversity policies, as well as health and safety, health and education, and labor regulations (S). The most important aspects in governance (G) are the rule of law, transparency, vigilance against fraud, and the stability of government institutions." (The World Bank, 2018).

A clean environmental record, egalitarianism, and long-term viability are all important aspects of financial investing. Environmental, social, and governance (ESG) variables are important drivers of portfolio risk and return. Based on the research on ESG concerns in investing, it is clear that investment managers should consider these factors when making investment choices. This is due to the fact that a considerable proportion of the research shows a favorable relationship between ESG integration and economic success.

Syed (2017) examined how fund managers incorporate environmental, social, and governance (ESG) considerations into their investment decision-making processes. To collect data for this research, finance managers in France and the United Kingdom were requested to complete questionnaires. Numerous consequences ensued. Corporate governance and environmental and social responsibility, the findings indicate, help organizations manage investment risks more effectively, hence increasing long-term shareholder value.

According to Duren et al. (2017), the process of incorporating ESG factors into an investment portfolio was explored. From a worldwide study of fund managers, they drew their conclusions. According to their findings, most financial decision-makers consider ESG aspects when making investments. ESG data is being used by fund managers to better manage risk and spot potential problems.

Mervelskemper and Streit (2017) performed research on the direction and degree to which financial market investors place value on an organization's environmental, social, and governance (ESG) performance. Overall, when an ESG report is issued, the company's environmental, social, and governance (ESG) performance becomes more valued. In the same way, ESG reporting is associated with better results.

Landau et al. (2020) recently did research on integrated ESG and financial data reporting. They found that ESG reports have a big impact on market value. Then, Sultana et al. (2018) did a study in Bangladesh about how ESG factors and investing decisions work together. The data for the evaluation came from a questionnaire that investors on the DSE and CSE filled out. The study found that adopting and implementing ESG principles leads to long-term investment returns, which in turn leads to a more sustainable world.

International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

Research by Amel-Zadeh and Serafeim (2018) looked at why and how venture capitalists use ESG data. Leading investment professionals who believe that environmental, social, and governance (ESG) concerns affect investment returns were polled for the study. For example, the research found that investors utilize ESG data for financial and risk assessment.

According to Henisz et al. (2019), an effective ESG proposal paves the way for higher value creation. Excessive expansion and cost-cutting are included in this. While managing their assets, investors take into account a number of key performance indicators and reporting formats (KPIs). Overall, the results show that ESG metrics differ across industries. However, governance was a constant topic in all businesses. Although environmental and social dangers are important for economic success, they are not the only ones.

A successful ESG proposal, according to Henisz et al. (2019), sets the door for increased value generation. This includes both excessive growth and cost-cutting. Investors consider a variety of key performance indicators and reporting formats when managing their investments (KPIs). Overall, the findings reveal that ESG measures vary across the industry. Governance, on the other hand, was a continual subject in all firms. Although environmental and social risks are critical to economic success, they are not the only ones.

ESG-based investments are reshaping the investing industry due to their greater and more sustainable returns. Sharma et al. (2020) did research on the components of Indian firms' ESG disclosure. The findings provide light on the degree to which firms disclose ESG information in their annual reports. Indian businesses are increasingly embracing ESG reporting in order to address stakeholder concerns.

2.0 Holistic Perspective on Environmental, Social, and Governance (ESG) Investment

ESG investing is a trendy issue in a number of regions throughout the globe. While environmental, social, and governance (ESG) practices are prevalent in Europe, North America, South America, Africa, the Middle East, Asia, and Australia, they are not universal. In the great majority of research, investing in ESG aspects has been associated with higher risk-adjusted returns.

Roots of ESG can be traced in the various scriptures and philosophical preaching (Sumit Kumar, 2020).Studying the relationship between financial performance and ESG variables in the commercial banking business, Kotsantonis and Bufalari (2019) performed research. The European Investment Bank, Deloitte, and the Global Alliance for Banking on Values were all involved in this research project (GABV). The results support the idea that superior risk-adjusted returns may be achieved by focusing more on material ESG issues.

Egypt's ESG disclosures have been shown to have a positive influence on the firm's value, according to Aboud and Diab (2018). ESG-listed firms had a greater company value than those that weren't, according to the

International Journal for Innovative Engineering and Management Research
A Peer Revieved Open Access International Journal
www.ijiemr.org

researchers. ESG quality seems to have a positive correlation with company value, as shown by the study's findings.

ESG disclosures have been shown to have a beneficial effect on the bottom line. Yoon et al. (2018) did similar research in Korea, finding a favorable association between ESG performance and company value. They determined that corporate social responsibility efforts had a considerable impact on a company's market value.

Grisales-Duque and Caracuel-Aguilera (2019) performed research to determine if stronger ESG ratings in developing markets of Latin American corporations are correlated with better economic performance. We used linear regression to evaluate data from 104 international corporations. The findings indicated that there is a negative significant relationship between economic success and the ESG score.

ESG practices were examined by Balatbat et al. (2012) in relation to the financial performance of ASX-listed companies. According to the data, there is a correlation between ESG rankings and economic success that is not entirely positive. ESG-focused companies' portfolio returns were shown to be lower than those of their traditional equivalents.

Hawkamah (2014) undertook an assessment of the Middle East and North African (MENA) region's ESG practices. The ESG index's performance corroborates the premise that ESG ratings might have an effect on financial performance. This may be accomplished via improved risk management or more investigation of commercial prospects, according to a CFA Institute (2019) analysis on ESG integration across Europe, the Middle East, and Africa. According to the data, ESG integration is more frequent in equities investments than in fixed-income investments.

One of the studies (Hawkamah, 2014) assessed the Middle East and North African (MENA) region's environmental, social, and governance (ESG) practices. The performance of the ESG index supports the hypothesis that ESG ratings may have an influence on financial performance. According to a CFA Institute (2019) examination of ESG integration throughout Europe, the Middle East, and Africa, this may be done via enhanced risk management or increased exploration of commercial potential. ESG integration is more prevalent in equity investments than in fixed income assets, according to research.

Companies that make their ESG scores public, such as SFWs, have a better value weighted ESG score than their counterparts, according to Liang and Renneboog (2020). This is critical because environmental, social, and governance (ESG) ratings are a component in investment that has been related to the improved financial performance of companies. Jain et al. (2019) conducted research to see if investing in a more sustainable manner produced more money. They discovered that there was no significant difference between the performance of conventional indices and the performance of sustainable indicators in their study.

3. Path forward

In a forward-looking world, ESG will be a challenge. One of the areas of concern is bitcoin mining. Bitcoin mining is big drain to ESG levels (Sumit Kumar, 2021). while there are ESG pressure expected to be exerted, there are some paths breaking and innovative ideas also being worked on to manage the ESG levels by active management of Carbon footprint (Sumit Kumar, 2022b). ESG based built environment need to be promoted for which an ample funding would be required in future. Any project which qualifies for a green labeling can raise funds using Green Bonds. On the other hands Sustainable Bonds (Sumit Kumar, 2022c) are the futuristic fixed income securities which can be used to finance or re-finance a sustainable project. Apart from conventional Fixed income or equity based financing, ESG Derivatives can also be used to hedge the financial risk of a fund that is meant to be utilized for funding Green, Social or Sustainable projects. Derivatives are financial instruments which draws its value from an underlying instrument (Sumit Kumar, 2022a).

4. Conclusion

In the present paper, we reviewed the concept of ESG (Environment, Social and Governance) from various perspectives. We traced back the root of ESG and reviewed the transformation of responsible investment which started in 1987 to which we know now as ESG. We discussed a global perspective of ESG and its interpretation across various economies and geographies. We also discussed the challenges ESG is going to face in future and went over some of the present work that can come handy for ESG and sustainability management in future.

References

1. Aboud, A. & Diab, A. (2018). The impact of social, environmental and corporate governance disclosures on firm value: Evidence from Egypt. *Journal of Accounting in Emerging Economies*, *8*(4), pp. 442-458. https://doi.org/10.1108/JAEE-08-2017-0079.
2. Amel-Zadeh, A. & Serafeim, G. (2018). *Why and how investors use ESG information: Evidence from a global survey*, *74*(3), pp. 87-10.
3. Balatbat, M., Siew, R., & Carmichael, D. (2012). *ESG scores and its influence on firm performance: Australian evidence.* Retrieved fromhttps://www.researchgate.net/publication/260907931_ESG_Scores_and_its_Influence_on_firm_performance_Australian_Evidence.
4. Duque-Grisales, E., & Aguilera-Caracuel, J. (2019). Environmental, social and Governance (ESG) scores and financial performance of multilatinas: Moderating effects of geographic international diversification and financial slack. *Journal of Business Ethics*, *168*, pp. 315-334.

5. Duren, E., Plantinga, A., & Schiltens, B. (2017). ESG integration and the investment management process: Fundamental investing reinvented. *Journal of Business Ethics*, *138*, pp. 525-533.
6. Eurosif. (2014). *European SRI study*. Retrieved from https://www.eurosif.org/wp-content/uploads/2014/09/Eurosif-SRI-Study-20142.pdf.
7. Hawkamah. (2014). *Environmental, social & corporate governance practices in the MENA region 2007-2012*. Retrieved from https://www.hawkamah.org/uploads/Review-of-ESG-practices-in-the-MENA-Region-2007-2012.pdf.
8. Henisz, J.H and McGlinch,J (2019), ESG Material Credit Event and Credit Risk, Journal of Applied Corporate Finance, 31(2), 105-117, 10.1111/jacf.12352
9. Jain, M., Sharma, G., & Srivastava, M. (2019). Can sustainable investment yield better financial returns: A comparative study of ESG indices and MSCI indices, *Risks*, *7*(1), pp. 1-18.
10. Kotsantonis, S. & Bufalari, V. (2019). *Do sustainable banks outperform? Driving value creation through ESG practices*. Retrieved from https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/Banking/lu-do-sustainable-banks-outperform-driving-value-creation-through-ESG-practices-report-digital.pdf.
11. Kumar, S. (2022). Risk rationalization of OTC derivatives in SOFR (secured overnight funding rate) transition: evidence from linear interest rate derivatives. Academy of Accounting and Financial Studies Journal, 26(3), 1-22.
12. Kumar, S. (2022). Strategic management of carbon footprint using carbon collectible non-fungible tokens (NFTS) on blockchain. Academy of Strategic Management Journal, 21(S3), 1-10
13. Kumar, S. (2021). Review of geothermal energy as an alternate energy source for Bitcoin mining. Journal of Economics and Economic Education Research, 23(1), 1-12
14. Kumar, S. (2022). A quest for sustainium (sustainability Premium): review of sustainable bonds. Academy of Accounting and Financial Studies Journal, Vol. 26, no.2, pp. 1-18
15. Kumar, S. (2020). *Relevance of Buddhist Philosophy in Modern Management Theory*. *Psychology and Education*, Vol. 58, no.2, pp. 2104–2111.

16. Landau, A., Rochell, J., Klein, C., & Zwergel, B. (2020). Integrated reporting of environmental, social, and governance and financial data: Does the market value integrated reports? *Business Strategy and the Environment*, 29(4), pp. 1750-1763. DOI: 10.1002/bse.2467
17. Liang, H. & Renneboog, L. (2020). The global sustainability footprint of sovereign wealth funds. *Oxford Review of Economic Policy*, *36*(2), pp. 380-426.
18. Mervelskempner, L and Streit, D (2016), Enhancing Market Valuation of ESG Performance: Is Integrated Reporting Keeping its Promise? Business Strategy and the Environment,**https://doi.org/10.1002/bse.1935**
19. Sharma, P, Panday, P and Dangal R.C (2020), Determinants of environmental, social and corporate governance (ESG) disclosure: a study of Indian companies, 17(4), 0.1057/s41310-020-00085-y
20. Syed, M., A. (2017). Environment, social, and governance (ESG) criteria and preference of managers. *Cogent Business & Management*, *4*(1). DOI: 10.1080/23311975.2017.1340820.
21. UNPRI (2018),
22. World Bank. (2018), Incorporating environmental, social, and governance (ESG) factors into fixed-income investment. Retrieved from https://www.worldbank.org/en/news/feature/2018/04/19/incorporating-environment-social-and-governance-esg-factors-into-fixed-income-investment.
23. Yoon, B., Lee, J. H., and Byun, R. (2018). Does ESG performance enhance firm value? Evidence from Korea. *Sustainability*, *10*(10). https://www.mdpi.com/2071-1050/10/10/3635/htm.
24.