Advanced International Journal for Research (AIJFR)

E-ISSN: 3048-7641 ● Website: www.aijfr.com ● Email: editor@aijfr.com

ESG Performance and Stakeholder Satisfaction- A Comprehensive Analysis

Dr. Chitra Srivastava

Associate Professor
Faculty of Management Studies
Shri Ram Group of College,
Muzaffarnagar (Uttar Pradesh).

Abstract

In today's world, ESG factors help companies to make a difference in society and the environment. They show that they care about more than making money. This paper discusses how businesses can use Environmental, Social, and Governance practices to improve their brand image and influence public perception. Utilizing Environmental, Social, and Governance practices helps companies build a reputation and connect with the consumers who buy from them. This can subsequently assist businesses in enhancing their brand value. The paper further mentions that when companies have a positive reputation, individuals are more likely to feel a connection to their brand, potentially resulting in increased brand value. The document seeks to help businesses understand how to implement Environmental, Social, and Governance strategies to enhance their brand and increase profits by being considerate and mindful of public perception. We are discussing the performance of companies based on Environmental, Social, and Governance criteria. This research aims to clarify the current state of ESG measurement and reporting. It will examine how terminology associated with business and sustainability has evolved over time and what these terms signify. Next, it will analyze the shifts in the market for ESG performance and identify the key participants. It will certainly examine the various Environmental, Social, and Governance ratings, measures, and indices currently in use. Ultimately, it will address the challenges related to measuring and disclosing Environmental, Social, and Governance factors and offer a few suggestions for what lies ahead. The aim is to clarify the status of ESG measurement and reporting.

keywords - Brand value, Sustainability, ESG Performance, Environmental, Social, Governance.

1. Introduction

In an environment where the global economy is rapidly shifting toward sustainable development, ESG (environmental, social and corporate governance) investing has transformed from a fringe topic the centrepiece of maintenance financial markets. For financial institution in the midst of a critical period of economic transformation, this trends presents both challenges and opportunities. The challenge is that they must adapt to the market’s new requirements for investment strategies in a short period of time and effectively integrate ESG factors into their long-term investment decision-making process. The opportunity is that embracing ESG investing, financial institutions can not only promote a sustainable economy, but also increasing inflow of responsible investment capital. In order to follow this trend financial institutions need to design and implement practical ESG investment strategies. This requires the establishment of a comprehensive ESG assessment system to ensure that the performance of investment projects in terms of a environmental protection, social contribution good governance structure can be accurately measured. Develop an ESG-integrated investment process to ensure that all decisions take into account long-term sustainability impacts. Financial institutions should focus on cultivating talent with a deep understanding of ESG issues and strengthening internal knowledge of ESG through ongoing education and workshops.For the purpose of better growth, opportunities and risk analysis ESG plays very crucial role in this regards.

2. ESG refers three types of factors-

1. Environmental factors
2. Social factors
3. Governance

In a business and investors prospective, the intention to study this topic is to find answer of the following question-

a) Why should we study ESG?
b) How will it help to increase consumer trust, brand value and social performance?

Historically, businesses primarily focused on profitability. However, in today's society, individuals are looking for measures of the performance of their investment, and the need for environmentally sustainable and socially responsible growth is paramount. Using ESG as the framework for measurement of business practices and loyalty creates a level playing field of ethical principles among all stakeholders of the business. The primary purpose of the ESG is to convert the risk of doing business into the opportunity. The brand's reputation is determined by how consumers perceive the brand in terms of the brand's credibility and trustworthiness. The consumer's perception of the brand is based upon past actions and future intent. When a brand has an -> trustful and well-established reputation, consumers have confidence that their purchase from that particular brand will be a good one; therefore, by maintaining a reputation for quality and reliability, consumers are more likely to make future purchases from that particular brand. Brand reputation is important to the consumer for his decision-making process regarding whether or not to make a purchase from that particular brand. Brand reputation creates a basis of trust on the part of the consumer. Brand reputation will have a significant impact on consumer purchasing behavior.

3. Literature Review

New studies are being conducted on the new ways of analyzing text, how companies are communicating their sustainable efforts and how the media is reporting on them. We will have a better understanding of how well companies measures up against analyzing these documents. We can then use the analysed documents. The Social and Environmental Accounting (SEA) literature provides a range of views and arguments on and around the importance of corporations adhering to ESG expectations of the communities within which they operate but seldom of these consider the motivations behind corporate environmental reporting, deterrence and avoidance of civil regulatory action is proposed as an alternate motivation for such reporting, and an area for future research.

ESG reporting influences both financial and environmental performance of a company. Weber analyses the ESG reporting of China Top 100 Green Companies and concludes that good ESG reporting contributes better financial returns and improvement of corporate environmental performance. Chen, Feldmann, & Tang indicate that the categories of Human Rights, Society as well as Product responsibility display a significant and positive correlation with the return on equity.One of the key issues is how to assess the quality of ESG reports. Currently there are many international institutions such as Global Reporting Initiative (GRI), United Nations Conference on Trade and Development (UNCTAD), The European Federation of Financial Analysts Societies (EFFAS) and regulatory bodies such as Hong Kong Stock Exchange (HKEx) develop the Key Performance Indicators (KPIs) for ESG reporting. Different organizations including United Nations, G20, OECD, European Union, and different countries such as Netherlands, France, Germany, United Kingdom, India, Japan, Philippines, and Vietnam etc. initiate the disclosure of ESG information in reporting. This creates the problems of lack of consensus, and companies may select indicators which only provide positive and favorable results. Therefore, it is important to establish a unique set of ESG key performance indicators to support investors' decisions. Such KPIs creating a reliable method of measuring the performance of ESG, where the effect of more complex factors can be considered a prerequisite for success not only in decisions, but also with regard to corporate management, possibility for comparison, competitiveness of companies, etc. by address ESG problems and corporate governance in relation to the measurement of business performance, as well as its continued success (sustainability success) . Ondoro suggests the use of Balanced ESG framework to measure the performance of an organization which industry practitioners may find this useful as this exposes external and internal as well as long term and short term perspectives of performance. Without an agreed measurement basis, it is difficult to assess the ESG performance of a company.Although the body of empirical literature on the ESG and financial performance of a company link is vast, it remains inconclusive. There are studies reporting positive, negative as well as neutral relationships between ESG and financial performance of a company.Many researchers find socially responsibility is to be positively related to an organizations' financial and social performance. Russo and Fouts have identified CSR as a source of competitive advantage which a firm can create a sustainable competitive advantage and therefore engaging in corporate social responsibility issues could be a worthwhile consideration for a firm's management.

4. Objective

This study looks into how different types of ownership (such as large institutions or small investors) affect the link between a firm's performance regarding environmental and social issues and its success. It looks at how varieties of ownership (e.g., institutional versus minority shareholders) impact the links between a firm's performance in terms of environmental, social and governance (ESG) issues and a firm's value. As such, the study will help us understand how significant different types of ownership are with respect to this issue.

Advanced International Journal for Research (AIJFR)
E-ISSN: 3048-7641 ● Website: www.aijfr.com ● Email: editor@aijfr.com

The primary objectives of this study are:

- Understand how a ESG parameters affects the firm's value.
- Study how a firm's structure impacts its performance.
- Recognize the risk related domain of the businesses and therefore suggest adequate management policy.

An effective risk management process is comprised of: identifying possible risks; assessing the impact of each risk; determining a course of action to address the risk; and ultimately reducing the likelihood that the risks will occur. When the process of risk management is executed effectively, issues can be identified early enough so that they do not escalate. In addition, we will explore what sustainability in business has come to mean to people and how this has changed over time.

5. Limitations

All the research that has been done has limitations. It's a concept. The research has not been done yet in the real world and should therefore be conducted so we know if it works, as well as the situations in which it does not work.

* The way that a company's image will be perceived may vary by market or demographic.

* The way that a company's image is perceived can also be impacted by numerous factors, including public concern for the environment and how familiar the public is with the company.

Further research should be conducted to test these hypotheses in the real world using experiments and/or surveys. Understanding the cultural perspectives of individuals in different cultures towards Environmental and Social Investing will be valuable in determining the impact of culture on a company's reputation. Longitudinal research should be conducted to measure the effect of the Environmental and Social policies of companies on their company image over time. We must determine if the way a company's reputation influences their ability to attract attention to their Environmental and Social Governance. Environmental, Social and Governance are critical considerations of the success of all types of businesses. A company's Environmental, Social and Governance efforts could allow them to build relationships with all of their stakeholders. In summary, all companies should strive to improve their Environmental, Social and Governance efforts to improve their company image.

"G" FOR Governance

Governance is one of the pillars of the ESG framework. Governance is the way a company is run and directed, including the rules, processes, and practices that are used. Good governance is important for all businesses, but it is especially important for those that are publicly traded.
Rules and policies help to run a company in a professional, ethical, and responsible manner. The process of following governance is as follows:

- Determine policy which focuses on purpose and aim of company.
- Develop standards that address the need of both business and management.
- Corporate governance aimed how a company is directed and maintained.Good corporate governance keeps investors safe by giving board members and executives a formal set of rules that make them more accountable and open to shareholders.

A firm utilizes a system to oversee its operations. This framework is referred to as governance. The governance framework is what a company employs to manage its operations and ensure that the investors in the company are satisfied. A governance system comprises several essential components, including:

* Methods and measures to monitor issues, dangers, and favorable prospects
* How the individuals managing the company daily, including the board of directors and other stakeholders, collaborate.
* Methods to establish objectives for the business, monitor progress, and assess the company's performance.

ENVIROMENTAL PILLERS –

The environmental factors refers to business risk and opportunities linked with environmental changes such as climate change-weather events, temperature, pollution- air, water and human health affects company performance. When companies think about how the environmental emergency might affect their business, they should think about the risks that fall into above categories-

1. Regulatory Risk

2. Technological Risks

3. Market Risks

4. Reputation Risks

5. Stranded Asset Risk

Changes in government policy and laws will influence future business opportunities and concerns.

A new and effective way of doing work, which includes more technological advancements such as machine learning and AI tools, can determine company returns.

Market risks are concerned with the supply and demand of business. It also has an impact on the reputation of the business because S&D reflects consumer interest towards the company's products.

6. Social Factor Analysis

Social factors consist of the interrelations between people, consumers, intermediaries, and the company and the relationships between the owners, managers, and employees of a company. Social factors are critical for continuing to:

- Minimize the company’s risk
- Meet the demands of investors
- Contribute to the performance of the business

Social Factors of Core Importance-Factors that represent the foundational component of determining a business's profitability are called 'social factors.' They are:

- → ◊ Human capital, which includes the wages or benefits received by employees and the gaps in compensation between upper level executives and lower level employees;
- → ◊ The demands by investors from the business for clear explanations of its operations. By understanding the business in detail, it makes transparency possible between investors and the company and builds credibility and trust; and
- → ◊ The core social factors provide the basis for business to acquire narrative social data they can use in developing constructive communication with investors, customers, business partners and employees; and

→ ◊ An example of businesses providing equitable treatment for their employees is that a business might comply with the requirement to provide employees with wages as well as a safe working environment as defined by the standards of their country. The company may provide higher than average wages than are provided by other businesses. However, at the same time this company could be a bad neighbor to the communities where they do business by generating tax revenue; creating job opportunities; and providing opportunities for their employees to volunteer; while at the same time causing harm to their local small business community and/or willfully ignoring the dishonest actions of local business associates.

Why ESG branding matters for consumer trust?

When a company is really genuine about doing things for the environment and society people are more likely to stick with them. Being open and honest about what they're doing also helps because it makes people trust them more. If a company can show that they are making a difference in people's lives and in the community that means a lot to consumers. People also care about how a company treats the earth so things like reducing carbon footprints making waste and using recycled materials are important. When a company is run in a responsible way it makes people feel better about doing business with them.

A company that does a job of showing its commitment, to these values can really change how people think about them and how much they trust them.

Mechanisms of ESG Performance on Firm Value

The changing business environment has made many companies become more mindful of the impact they have on both the environment as well as society. The term used to describe this conscientiousness is (usually called) "Environmental, Social, and Governance" or "ESG" for short. ESG not only became a priority for a growing number of corporations but has also become an increasingly expected consideration when planning for the future. While the number of businesses considering ESG is on the rise, there are still some that do not believe that ESG will be taken seriously. Many skeptics have been able to point to one or more companies who claim to care about the world around them, yet do nothing more than talk about how they care for it.

This paper will provide explaining how an organization can credibly communicate its ESG efforts (to customers). It is stated that organizations should make an effort to support causes that benefit society and the planet and then communicate their actions to reflect their commitment to these efforts. Transparency means being honest about their efforts. This means that when making decisions are being made that impact the environment and society, organizations must be honest with the public about what they did to make their decisions.Relationship between ESG Performance and Firm Value towards consumer trust.

When businesses are open and genuinely assist both the environment and society, they will begin to gain people's trust. This trust holds great significance for businesses as it assists them in retaining their customers. The article examines how certain companies feign concern for the environment and society. They really don't take any action to assist. This practice is referred to as green washing. Green washing occurs when a business claims to take action but is, in reality, not doing so.

The document states that businesses must ensure they are genuinely taking actions to benefit the environment and society, rather than merely claiming to do so. They must be truthful with individuals and reveal what they are doing. This is how companies can truly earn trust. The article is significant as it aids in comprehending how businesses can communicate about ESG in a credible manner.

ESG reporting vs. sustainability and corporate social responsibility (CSR)-

The terms ESG, sustainability, and CSR are often used interchangeably by many people. However, the three terms are very different from each other. Sustainability is the concept of taking care of the environment through resource conservation & keeping ecosystems healthy. Sustainability is incredibly important because it provides an opportunity to utilize the environment for a long time and keep our planet safe in the future. When we talk about sustainability we are talking about taking care of our planet and keeping our Ecosystem healthy. This is one of the fundamental ideas of sustainability.

The Definition of Sustainability is: Taking care of the Environment through Environmental Resource Management, Protecting our Ecosystem by replacing existing resources with new, Using resources without harming the environment. Sustainability is about being aware of how the environment is used. Sustainability is about conserving resources. Sustainability is about ensuring the Ecosystem continues to exist. The main mission of Sustainability is to ensure that the earth is a safe place to use for its own continued use. This is what Sustainability Truly means. All people have a duty to maintain the earth and all of the resources on it, so that we can ensure our tomorrow will be there, this is the objective of Sustainability.

CSR is more subjective, and therefore CSR is about how companies treat the people that they do business with. In contrast, Sustainability is about companies protecting the environment through their use of CSR.

Risk management with the help of ESG for consumer trust and brand value

Historically, individuals primarily regarded disasters such as fires, earthquakes, and floods as risks, believing that possessing safety equipment was sufficient for protection against them.

Risk is affiliated with opportunity all across the business realm. Generally speaking, one can't arise to any degree of accomplishment without accepting some degree of risk. Corporate business has various levels of risk throughout an entire company culture. There are many different aspects and types of risk associated with the industry in which a corporation operates or is involved. Management of each company must control and manage all aspects of risk.This should occur through risk control management. Risk control management processes include identifying inherent and possible risks, assessing each of those risks, and finally developing plans and strategies to minimize and/or mitigate the risk. Proper management will help facilitate the company's effective development and/or growth.

The Companies Act 2013 mandates that each corporation have a written risk management policy that contains policies and plans for identifying and managing risks that could potentially threaten a corporation's ability to continue to survive or exist. Additionally, the SEBI regulations on corporations include regulations requiring corporations to develop and implement a process for the corporation to communicate the company's process for risk identification and assessment to its board of directors. The corporation's board of directors must create, implement and monitor the company's risk management strategy and process. Corporate secretaries play a key role in risk management development and execution by ensuring that organizations comply with all legal, regulatory and ethical requirements; promoting positive behaviors within the organization; and assisting the organization's board in achieving their goals and objectives. Corporate secretaries have both a significant regulatory duty as well as other duties assigned by their employer. This lesson was designed to help students understand the role of a corporate secretary in relation to the corporate governance framework and risk control.

Findings:

- Corporate Sustainability is now essential as a competitive advantage.
- Responsible investing is making thoughtful decisions which include caring for people and the planet and facilitating steady long-term financial growth.
- ESG is more than just being responsible - it also serves as a means to create business growth in the future.
- Through ESG, businesses are able to develop their businesses in a responsible manner, earn consumer trust and turn their challenges into opportunities for business growth long-term.
- The major focus of ESG is to convert business risk into opportunities.
- ESG, (Environmental, Social and Governance) practices have to be a priority for businesses today.

- Environmental factors indicate that a company that takes care of the planet builds a good reputation and creates long-term sustainability for its business.
- Social factors indicate treating people well will generate trust and create loyalty and establish better relationships.
- Governance factors create honesty and transparency into the decision-making process of a business which helps reduce risk while making sound business decisions.
- The relationship between Firm Value of ESG performance and Consumer Trust.
- The document states that Companies should ensure they are genuinely taking action for the benefit of the environment or society and not simply making statements stating that they do.
- Risk/reward go hand in hand therefore taking risks in businesses that are considered to be "calculated" risks is necessary for growth.
- By using proper risk management, companies are able to recognize problems at an early stage and prevent catastrophes from happening.

7. Conclusion

The Importance of Understanding Environmental, Social, and Governance (ESG) to Consumers Environmental, social, and governance (ESG) are areas in which businesses focus on caring for the environment, ensuring that they provide fair treatment to employees, and establishing how their business operates. Used previously to assess the sustainability of an organisation by investors only, ESG is now being adopted by consumers as another means of determining whether the organizations they purchase from have similar values and philosophies as them. As the number of consumers that have shown interest in, and concern for, ESG has increased, many consumers expect companies they purchase from to be transparent in their efforts within each of these areas. Therefore, the growth in consumer interest in assessing the ESG of a business or product indicates that consumers are now aware of what ESG is, and how it influences their purchasing decisions. How Environmental, Social, and Governance Build Trust with Your Customers There is a growing distrust among consumers regarding businesses and their objectives. This creates a demand for businesses to demonstrate they have integrity; through the use of Environmental, Social, and Governance (ESG) and their commitment to it, a company will earn the trust of the consumer they represent, resulting in repeat customers and brand loyalty. As such, trust is an essential element to establishing loyalty means that it will not depend on whether the product is of good quality or price; rather, it will depend upon whether people trust a company's brand enough to purchase its products, and for this reason it is critical for companies to communicate their commitment to ESG.

Societal Duty: Legitimate Procedure and Engagement with Community-As with most things, our society has certain standards that we expect from companies who succeed over time. In society, there are many ways that businesses interact with one another. The most obvious is through fair labour; however, other elements are just as important such as diversity and inclusion, involvement with the community, and respecting human rights throughout the world.

Consumer Trust Relies on Governance and Ethical Transparency-Governance is part of ESG (Environmental, Social and Governance) criteria in ESG and looks at how a business makes decisions and its accountability systems based on internally developed policies. Governance will also dictate how a company deals with ethical challenges, maintains transparency and integrity. Ethical governance is very important in developing trust among customers because it indicates that a company operates with integrity and accountability. In an age where there is so much information available to consumers, trust in the brand can be destroyed in an instant when the company is found to be operating outside of the ethical standards it has established.

References

Source	Author/Organization	Website
World Business Council for Sustainable Development (2002). *Corporate Social Responsibility: The Business Case*	World Business Council for Sustainable Development	https://www.wbcsd.org
Companies Act, 2013	Government of India	https://www.mca.gov.in
SEBI (Listing Obligations and Disclosure Requirements) Regulations	Securities and Exchange Board of India	https://www.sebi.gov.in
Global Reporting Initiative (GRI) Standards	Global Reporting Initiative	https://www.globalreporting.org
ESG Overview	CFA Institute	https://www.cfainstitute.org
ESG Investing	Principles for Responsible Investment (PRI)	https://www.unpri.org
Sustainability Goals	United Nations Sustainable Development Goals	https://sdgs.un.org