ESG business commitment: assessing current trends

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The modern global community perceives sustainable development goals as something more than just target indicators for the functioning of national economies and businesses. Today, existence and development in the context of ESG, SDG and CSR are becoming a culture, that can be compared to the basic principles of human existence. Unfortunately, despite the fact that international experts note Kazakhstan's significant progress in this direction among the countries of the Central Asian region, ESG for Kazakh business is fashionable, might be even cool, but still is expensive. We are forced to note the absence or minimal amount of ESG information about activities of business entities in Kazakhstan. According to the results of 2019 annual reports' review, conducted by the QRA rating agency, specializing in the assessment and ranking of Kazakh companies, out of 100 companies whose annual reports were studied, only 19 produce a report on sustainable development in different forms.[1] At the end of 2022, according to Kursive Research, the situation has not improved, but at some point, has even worsened comparing to 2020 and 2021. [2] According to experts, Kazakh companies have changed their attitude to the ESG agenda, and there is even a slight decrease in interest in this area.

Our study of sustainability reports from about 200 of the world's leading companies showed that sustainability reporting does not have strictly regulated structural requirements. Each company prepares a report based on its own interests, since the main approach remains that it is non-financial reporting. Thus, only 27% of Kazakh companies disclose the list of stakeholders in corporate reporting. 14% provide a fairly comprehensive report on interaction with stakeholders, 17% of companies disclose this process partially. All this causes some difficulties in the study - it is impossible to conduct a comparable analysis for all indicators: we can state about the existence of a certain subjectivity. In addition, it has been established that in certain industries all companies demonstrate minimal commitment to sustainable development goals (hotel business) - the lack of a standard in the industry, in turn, reduces interest for Kazakh business. It is noted that the service sector in general is characterized by fairly little experience of ESG commitment; even financial institutions, both Kazakh and global, have been preparing reports for literally 3-4 years, while the industrial sector has been involved in this process for about 10 years.

The significant gap in ESG awareness and commitment is due to various factors. First of all, the main question is how ESG is perceived and how these principles relate to sustainable development goals and corporate social responsibility. Studying about 300 publications on ESG issues, reports on sustainable development of about 200 global and Kazakh companies allowed us to conclude the following key approaches to ESG itself. If the SDGs are, first of all, global indicators for the development of states, then:

- ESG is a tool for achieving SDGs through the main participants of environmentally impacting companies
- ESG, first of all, for business
- ESG is non-financial and non-production reporting about responsible business conduct
- ESG allows you to create a profile \ portrait \ reputation of the company
- ESG environmental and social goodwill of the company
- ESG Life metrics
- ESG – proactivity, innovation, creativity

The dissemination and implementation of ESG in developing countries is sometimes compared to the experience of implementing IFRS - it was not easy; it took a long time and was accompanied by some resistance and rejection from local markets and businesses. Perhaps the main challenges that are currently faced on the stage of ESG business transformation are related to certain circumstances, which we have grouped into the following approaches.

Approach 1 – The requirement to report on SDG, CSR, ESG and follow GRI standards is not universal for the global community. Thus, the study showed that if for European countries this direction is already being implemented on the government regulation level, then in some states of America, the desire to call for ESG commitment is considered as a fact of infringement of the rights of entrepreneurs and an attempt to break the democratic foundations of American society [3].

Approach 2 – For business, reporting and compliance with standards, first of all, is a result of international integration, requiring accession to the GRI, the Global Compact. In general, the global community still perceives ESG commitment as demonstration of company's corporate responsibility to the community, to the future generation. Considering that according to the World Bank, at the end of 2022, European countries account for about 20% of world GDP, China - 18.47%, the USA -15.51%, India - 7.23%, and Russia 3.25%, then, taking into account the logistics leverage, it can be assumed that the interests of Kazakh business towards European ones will also be a priority in the near future [4]. This, as a result, requires Kazakh companies to be more integrated, which means the need to meet the expectations of foreign investors, for whom responsible investing and ESG are not just a fashionable trend.

Approach 3 – Non-financial reporting is becoming increasingly widespread among large businesses - transnational and global companies that concentrate a significant share of the world's assets. Thus, according to the KPMG report at the end of 2022, there are already about 240 companies from 250 of the 250G list (leaders in sales according to Fortune magazine) and 71% of the top 100N (a global sample of 5,800 companies included in the top 100 companies by revenue in each of the 58 countries) [5]. These data indicate, first of all, that all large businesses today understand the importance of non-financial reporting and demonstrate their commitment to ESG.

Approach 4. There are 5 main Frameworks on which companies and states rely when drawing up reports, analytical reviews regarding commitment to ESG, CSR. Thus, industry standards made by Sustainability Accounting Standards Board (SASB) focus on specific industries and risk factors associated with sustainability [6]. It should be noted that this standard is currently being updated and the ISSB (International Sustainability Standards Board) from the IFRS Foundation is expected to introduce a standard covering both financial and non-financial reporting principles. The Task Force on Climate-related Financial Disclosures (TCFD) standards govern reporting standards related to climate risk when a company evaluates and discloses financial, operational and strategic aspects related to climate change [7]. Carbon Disclosure Project (CDP) standards define a system for reporting greenhouse gas emissions and managing climate risks. Companies can voluntarily disclose their climate data through the CDP, allowing investors and stakeholders to evaluate their climate strategy and performance [8]. All three standards already have significant experience in implementing the main provisions, are adapted for use, and, as a rule, do not have country specificities. The ISSB standard brings together various standards in the field of sustainability [9], such as GRI (Global Reporting Initiative) and regulations on ESG factors [10]. Most of the GRI standards in one way or another overlap with the first three, but have their own more specific approaches, expressed in the example of such standards as indirect economic impact (SRS403) and social policy (SRS 615).

Approach 5. The global community is moving towards introducing mandatory standards for non-financial reporting and updating IFRS – to make them “pro-sustainable”, we are moving towards the full implementation of integrated reporting (IIR) [11]. This may be an important step in promoting ESG awareness, considering the experience gained in the Central Asian region during the implementation project of the IFRS. Considering that during the period of introducing IFRS and adapting Kazakhstan accounting to international requirements, the process began precisely with financial organizations and institutions, and then moved to the real sector and all this was accompanied by great resistance, perhaps that this process is worth of implementing through adapted IFRS.

At the same time, various industries and spheres have their own regulations, which in one way or another explain, recommend and define approaches to reflecting the results of business entities (for example, recommendations of National\Central Banks of countries on the disclosure of non-financial information; recommendations of the International Integrated Reporting Council (IIRC), TCFD; EU Environmental Management and Audit

Scheme (EMAS); Nasdaq Guidelines, etc.). All this indicates that in certain countries and regions, at different levels, the issue of promoting ESG awareness is gaining support and perception is gradually improving. On the other hand, this once again indicates that regulatory tools are necessary and that they contribute to improving the ESG culture. At the same time, the application of the due diligence approach to ESG indicates that the application of this principle is associated with some difficulties in fulfilling obligations to disclose information along the entire value chain. This means that the issue of regulation is becoming increasingly relevant.

The meaning and role of ESG is also explained through the accumulation of experience in its promotion, the list of positive impacts of companies' commitment to these principles is expanded. There is no doubt that, first of all, through the disclosure of the essence comes the awareness of influence. Thus, with the help of ESG reporting, the company completes its portrait for direct and indirect stakeholders, helping them understand the company’s values with a certain strategic presentation, but without delving into the operational life of the business. As a result, gained benefit is an improvement in the reputation and image of the company. The widely discussed issue of greenwashing and imaginary CSR is supported by many cases, which, unfortunately, take place. In particular, various cases from Deutsche Bank reflect the application of both principles of social and corporate responsibility. For example, in 2020, the New York State financial regulator fined Deutsche Bank for $150 million for failing to control the illegal/criminal connections of its client, who had been actively using the bank's accounts for many years for human trafficking operations. Or when the US Securities and Exchange Commission fined a bank $55 million for inaccurate descriptions of bank assets (overvalued assets and lack of sufficient collateral) [12]. The Supervisory Board of the bank and the shareholder meeting recognized as the reasons for this situation (as well as of the other errors made in management) the appointment of two full-fledged executive directors of the bank – the use of the so-called tandem management model (2016). At the same time, sufficiently detailed information about ESG commitment and cases confirming Deutsche Bank’s contribution to the development of green finance one way or another neutralizes negative cases and the issue of maintaining reputation depends on, as they say, “the number of good deeds” [13].

Undoubtedly, the main benefit of ESG commitment, recognized and working to stimulate companies' interest in the ESG agenda, is attracting investment. Investors are increasingly paying attention to ESG indicators when making investment decisions. Sustainability reporting provides an opportunity for companies to disclose their ESG practices and attract investors interested in responsible investing. Both parties involved in this process strive to highlight these cases, which typically relate to either two or all three ESG pillars. For example, a striking example is the case of Etihad Airways, which announced the signing of a loan agreement in October 2021 in the amount of $1.2 billion with financial institutions HSBC and First Abu Dhabi Bank. The terms of the loan require Etihad to meet key performance indicators in three ESG areas: CO2 emissions, increasing the number of women in Etihad's workforce and improving corporate governance integrity [14].

An additional opportunity that companies receive when preparing ESG reporting is the expansion of risk management tools. Sustainability reporting helps companies identify, assess and manage risks associated with ESG factors: climate change risks, environmental risks, supply chain risks and other aspects that can affect a company's financial performance and stability. Basing on them, the understanding of the need and methods of regulation through non-financial reporting is being transformed. Thus, the European Commission has made changes and made non-financial reporting mandatory for all companies covered by the Corporate Sustainability Reporting Directive (CSRD)[15]. The desire of a business to comply with the requirements and regulatory environment becomes an important condition for the ability to be globally integrated.

The main sources of problems with the spread of ESG commitment, in our opinion, are several both objective and subjective reasons. Mentality is perhaps the most frequently cited reason when discussing the constraints to reform. And yet, it is enough to recall the Kazakhstani experience of transition from national to international IFRS. Basically, current practice shows all the same signs – quiet sabotage is observed within both middle management and top management. In addition, the specifics of international experience’s implementation indicate that in this process, Kazakh companies face the same problem. Human capital, which determines the foundation of changes and transformations, is represented either by older workers who do not want changes, or by young people who, due to lack of experience, are not capable and not ready to implement these changes.

The complexity of the formation and non-financial reporting coverage is determined both by the need for a serious transformation of management reporting and by the expansion of approaches to generate financial and production data. In addition, non-financial information characterizing company’s activities in the context of its environmental sustainability, social responsibility and corporate governance requires the generation and storage of a large amount of data. The current picture of non-financial reporting on a global scale shows that information is not always clearly supported. Along with this, more than ten years of experience in the formation of non-financial reporting has shown a certain subjectivity in the reporting itself, eradicating which is only possible with the participation of professional personnel in this process - experts in the field of ESG. The lack of ESG specialists creates the problem of targeted impact on the results, when companies cannot timely and correctly assess the potential risks and benefits of ESG events.

It should be noted that, unlike financial reporting, ESG reporting has additional ways for transmitting information - social networks, information flows through which require special attention and costs. These are not only the costs of generating and posting relevant information in certain content of a particular media platform, but monitoring reactions and messages to certain posts, which can have both a positive and negative effect.

An analysis of sustainability reports and websites of Kazakh companies showed that out of 37 surveyed companies, only 15 provide sustainability reports, and it should be taken into account that these are large business entities (minimum annual profit is 36.0 million tenge, maximum - 1344.0 billion tenge).

1) Of those companies that prepare a sustainability report, 23% of Kazakhstani companies disclose a list of stakeholders in corporate reporting. 12% provide a fairly comprehensive report on interaction with stakeholders, 15% of companies disclose this process partially. All this causes some difficulties in the study – it is impossible to conduct a comparable analysis for all indicators, there is a certain subjectivity.
2) The conclusions presented in Figure 1 show that despite the fact that these companies can be called systemically important in their industries, only 20 out of 37 have “Sustainable Development” tabs on the main page of the company’s official website, which accordingly indicates the presence of certain information about company's commitment to sustainable development goals. However, the majority of these companies do not disclose information about investing in personnel development – 22 out of 37 companies do not disclose information in their reports on sustainable development. Despite the high popularity of gender equality topic, out of 37 companies: 5 do not provide information about the presence of women in the staff of their organizations. Only 10 out of 37 companies disclose information about reducing waste and 6 out of 37 share their results on reducing harmful emissions.

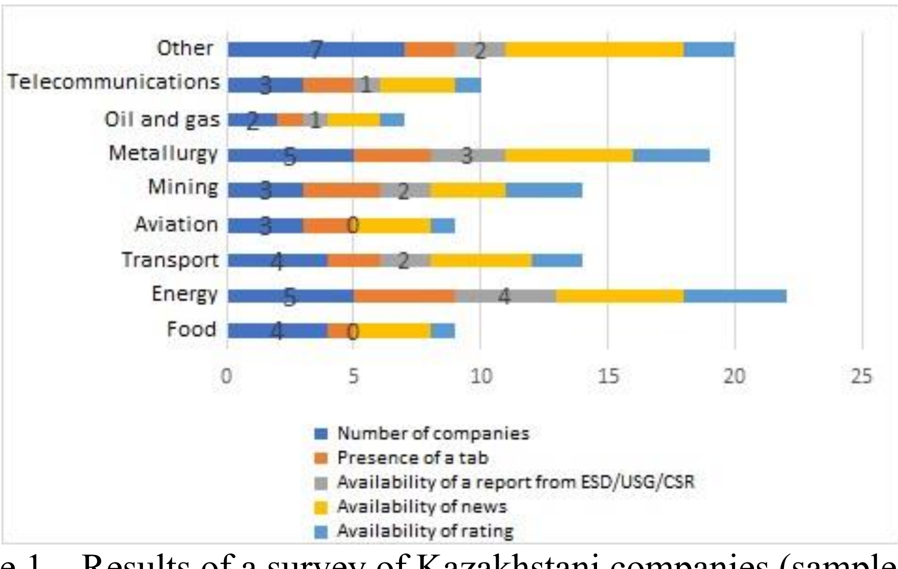

Figure 1 – Results of a survey of Kazakhstani companies (sample of 37 companies)

Note: according to official websites and reports on sustainable development of Kazakhstani companies

3) On the initial stage of this study's implementation showed a weak level of ESG culture, especially in the context of environmental responsibility among the population of Kazakhstan. In particular, the project team began a survey among employees of one of the largest mining enterprises in Kazakhstan. The first results of the survey show misunderstanding and ignorance of the basic principles and approaches to achieving sustainable development goals and corporate social responsibility on the part of both line managers (Meddle management) and ordinary employees. What is troubling is the lack of information among this category of respondents about what the company they work for is doing towards achieving sustainable development goals.
4) The implementation of research within the framework of this project faces certain difficulties. First of all, the disinterest of business entities in participating in these studies. The scientific community conducts researches and offers assistance in popularizing ESG knowledge, but Kazakh companies demonstrate a lack of interest.

The implementation of the following measures is proposed as key recommendations at this stage of the study:

1) Submission of reports on sustainable development should become mandatory for companies operating in Kazakhstan. This process can be implemented in several stages, but at the initial stage this requirement should become mandatory for companies carrying out export-import activities.
2) The level of ESG literacy needs to be developed at the state level, both through science and the education system, and through media resources.
3) It is necessary to create a body at the state level, that is should be responsible for the implementation of sustainable development goals, and what is more important: at the regional level.

Achieving sustainable development goals, designated by the UN as a key vector of the world order, has become an important guideline in the development of public administration and big business in recent years. The implementation of ESG principles, despite their clear regulation, has its own specifics, and since it demonstrates a combination of approaches to management that are different in content, in practice it shows exposure to external and even internal factors that require detailed study.

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