



Research Article

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Received: 20 July 2023 / Accepted: 20 October 2023 / Published: 5 November 2023

Effective ESG Transformation of Russian Companies in the New Environment: Current Challenges and Priorities

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DOI: <https://doi.org/10.36941/ajis-2023-0157>

Abstract

This research aims to analyze the current problems of ESG transformation in Russia, focused on identifying priorities in solving the problems of sustainable development of Russian companies using ESG tools in the context of geopolitical changes. The authors illustrate the results of a comparative analysis of the ESG assessment methodologies of four Russian rating agencies and prove their methodological limitations regarding the use of subject areas, the comparability of specific ESG factors and their weights, analytical controversies, and categories of rating scales. The authors propose a new conceptual approach for the formation of a statistical base, which was tested during the research. The scientific novelty of this approach lies in the application of additional criteria in the analysis of non-financial information using quantitative and qualitative methods. This made it possible to structure the non-financial information obtained as a result of a survey among 118 Russian companies. The formulated questions of the questionnaire and the companies' answers provide an opportunity to see the limitations and promising directions for the transformation of the company's activities using the principles of sustainable development and ESG tools. The main research results include a created database, the users of which can determine the most significant ESG factors according to the following criteria: 1. industry affiliation; 2. legal form; 3. number of employees; 4. income; 5. availability of ESG policies and reporting; and receive an average response rating on a 10-point scale. As a result of a combination of answers, the ranking score of ESG blocks was determined in descending order of points: 8.0 points - S (Social); 7.8 points - G (Corporate Governance); 7.4 points - E (Environment). This research indicates promising directions for the development of a unified methodology for assigning ESG ratings for various rating agencies, including the differentiation of indicators and their weights for various industries.

Keywords: ESG, non-financial information, ESG methodology, ESG rating, divergence

1. Introduction

The emergence of ESG awareness in Russia was preceded by a long history of Soviet and then Russian social responsibility in business. The protection of employees' rights and their social security were guaranteed by the norms of labor law and social assistance of the state. Since the mid-1990s, with the establishment of joint-stock companies in Russia, state regulation of social protection and assistance to employees has been partially transferred to the level of corporate norms.

As for the concept of sustainable development in Russia with regard to the environment, its legal framework began to be formed with the adoption of the Presidential Decree "On the State Strategy of the Russian Federation for Environmental Protection and Sustainable Development" in 1994.

Russia is a member of the UN and is guided by the fundamental documents in the field of sustainable development when developing criteria, assessing and presenting them in reports for the UN, in particular, evaluating the achievements of the Sustainable Development Goals in the annual UN Report (The Sustainable Development Goals Report), as well as in the preparation of reports in accordance with the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), etc. Non-financial ESG reporting of large Russian companies is sent to the Corporate Register international database. Since 2006, the Russian Union of Industrialists and Entrepreneurs (RSPP) has registered and created a library of non-financial reporting at the national level.

The ESG agenda, which includes comprehensive environmental, social, and corporate responsibility, remains relevant in Russia regardless of the current economic conditions and geopolitical situation. Starting in 2022, Russian companies began to focus more on Asian markets and the BRICS countries rather than on Europe, restructuring their supply chains in the new conditions. However, this prospect is ambiguously assessed by Russian rating agencies. In the authors' opinion, for a number of Russian companies, the ESG agenda has become an integral part of their corporate culture; therefore, they do not plan to abandon it.

Activities in the field of ESG are based on the general principles expressed by the UN to achieve sustainable development goals at the national level and remain relevant for Russia. In 2022, the Civic Chamber hosted a presentation on a project on regular public assurance of public non-financial reporting in the field of ESG and sustainable development. Companies, regions, and large cities can become participants. The RF Civic Chamber has already received requests for public assurance from large businesses and Russian regions. In the future, a similar tool may be developed for medium-sized companies. It is expected that the project will help popularize sustainable development trends and summarize effective practices that can be used by companies to start ESG transformation.

In 2021-2023, a basic structure of regulations based on international ESG reporting standards has been created in Russia. A federal law on limiting greenhouse gas emissions has come into force, and a National Green Finance Methodology has been approved, including a taxonomy of green and adaptation projects and requirements for a verification system. The Russian taxonomy establishes criteria for green projects in the fields of waste management, energy generation, construction, industry, transport, water supply, biodiversity, and agriculture. The National ESG Alliance was created to promote the transition to a sustainable development model for the Russian economy through partnership and consolidation of stakeholders' efforts to preserve the environment, community well-being, and long-term business growth. An ESG Infrastructure Atlas is currently under development and is expected to be approved by the end of 2023.

At the same time, whereas large Russian businesses in the industrial sector understand the significance of such transformation due to environmental damage, small- and medium-sized enterprises in the industrial and non-industrial sectors are only beginning to become aware of the ESG principles. The factors and criteria for assessing the achievement of sustainable development goals by large businesses cannot be objective for service companies because of differences in their activities.

The formation of a national ESG-directed transformation system requires analytical research,

resulting in the identification of problems, the solution of which is possible through the combined efforts of scholars and practitioners.

In this regard, the authors of this article set the following tasks:

- to analyze foreign and domestic studies aimed at achieving sustainable development goals using ESG tools;
- to compare the ESG rating methodologies of several Russian providers;
- to show the differences in the assessment of ESG factors and determine their significance (weights) when rating companies according to certain criteria.

The study is highly important for Russian companies, investors, suppliers, customers, rating agencies, etc. By introducing the principles of sustainable development into their policy, large Russian companies will motivate medium and small businesses, which are still poorly involved in ESG transformation, to adopt this agenda when entering into a contract. Comparative analysis of rating methodologies (factors and their weights) will provide SMEs with generalized information for practical use, expand the scope of their activities, and fully realize their production potential.

2. Literature Review

The growing attention of society to the preservation of the environment, the values of reasonable consumption, the demand for environmental goods, the implementation of social investments, the development of charity, and volunteering have become relevant in the last decade. By studying the needs of business, society, and the interests of the state, the Russian scientific community contributes to the development of the ESG research agenda.

Responsible investment is a trend in sustainable financial development, within which a scientific discussion continues about the content of the concept of responsible investment, the concept of sustainable finance, and their implementation in practice. According to N.A. Lvova, responsible investments are investments, decisions on which are made regarding the principles of responsible financial behavior and are directly related to environmental, social, and organizational components in project and company management (Lvova, 2019).

The results of theoretical and practical studies of responsible investment show that the correlation between the implementation of ESG principles and the financial performance of a socially responsible business, the nature and significance of the relationship between them are not completely defined.

From the standpoint of the theory of public goods, responsible investors contribute to their formation. However, according to a number of scholars, the expansion of business responsibility beyond economic roles violates the fundamental principle of entrepreneurship – profit maximization (Alexander, 2018). With insufficiently adjusted public reporting mechanisms, following the principles of voluntary non-financial reporting, or opportunistic behavior of managers, companies may increase production costs. This increase makes companies less competitive compared with companies not included in ESG initiatives. Discussions on this subject are being conducted in scientific publications by scholars from the United States, Spain, China, Russia, and other countries.

Studies by Chinese scientists have shown that the implementation of ESG principles significantly reduces corporate risks and leads to a more stable operating environment for companies. Executives view ESG as a safe investment in the event that a firm loses long-term value (He et al., 2023), and the effectiveness of corporate ESGs can significantly increase a firm's access to trade credit (Luo et al., 2023; Vasiljeva et al., 2023).

When studying the activities of the oil and gas sector, Spanish scientists found a positive relationship between the environmental and managerial aspects of ESG and corporate financial strategy, market value of companies, financial performance, and financial risks (Ramírez-Orellana et al., 2023).

The results of the analysis of the short-term and long-term impact of the ESG policy on the

creation of value and the market value of the equity capital of companies (Rojo-Suárez & Alonso-Conde, 2023) showed that the ESG policy has almost no effect on the value in the short term. However, in the long term, higher ESG results in less value creation due to substitution effects directed at market value through higher long-term discount rates.

According to McClimon (2020), ESG policies and practices positively impact a company's financial performance and long-term business strategy, as well as the attraction and retention of diverse talent (McClimon, 2020).

Emphasizing ESG is a way for employers to address workforce challenges. Over the past years, executives have recognized the importance of attracting and engaging young employees. Marsh & McLennan summarized that "ESG performance will become increasingly important to attracting and retaining talent as Millennials and Gen Z come to make up most of the global workforce, given the importance they place on environmental and social issues" (Jiang et al., 2020).

Considering ESG transformation as a tool for the transition of the economy to the path of sustainable development, Russian scholars identify the reasons that encourage companies to implement ESG principles. They assess the general state of ESG transformation in Russia and the maturity level of sustainable development practices. The proper environment for the implementation of the ESG approach is still being formed (Sberbank, 2022), and the level of maturity of the practice of Russian companies and readiness for ESG transformation are at the initial stage (Dubovitskaya et al., 2022).

Similar to other countries, Russian researchers have conflicting opinions on the effectiveness of implementing ESG initiatives. Many individual and institutional investors still believe that investing in ESG entails a decrease in investment efficiency (Efimova et al., 2021). On the one hand, ESG principles are designed to help investors better calculate the company's risks and long-term financial stability, but on the other hand, there are arguments that following these principles leads to increased costs, and the economic benefits of disclosing ESG indicators are exaggerated (Bataeva et al., 2022).

Investors have a prevailing opinion that in a socially responsible business, the investor receives less profitability; however, such projects are aimed at implementing long-term goals and creating public goods, and therefore require state support in the form of direct financing, subsidies, and benefits [17].

The leaders of large Russian companies have different opinions. At the beginning of 2022, approximately half of the respondents (members of the boards of directors and top managers) noted that sustainable development projects reduced costs, and investments in ESG can be beneficial for the company [19].

The publication of ESG information increases the confidence in the company on the part of investors and customers, and thereby contributes to the growth of indicators calculated on the basis of profit (Izmailova, 2022). However, companies disclose different amounts of non-financial information in the absence of a clear and precise system of regulation. This state of non-financial information complicates decision-making for investors and leads to asymmetric assessments of ESG transformation by companies and society.

Grishankova (2022) identified the following main problems with data and ESG ratings:

- lack of consistency among ESG rating providers in selecting and describing measured data;
- lack of transparency in the methodologies underlying ESG ratings and related information products;
- uneven coverage of ESG ratings across industries and regions;
- insufficient communication with companies that are the objects of ESG ratings.

Another focus of discussion on ESG transformation is the methodological issues of determining ESG ratings. ESG ratings are calculated according to the approved methodologies of the providers. However, ESG ratings from different providers disagree substantially, as shown by Khachatryan (2022). She identifies the main causes of the divergence of ESG ratings:

- ratings are based on different sets of attributes (scope);
- rating agencies measure the same attribute using different indicators (measurement);
- rating agencies take different views on the relative importance of attributes (weight);
- the data by the companies has low comparability and transparency (disclosure).

3. Materials and Methods

In the article, the authors used the results of their own studies when conducting research on the topic “Development of ESG-rating methodologies for large non-financial businesses and SMEs”, funded by the Federal State Budgetary Educational Institution of Higher Education “Plekhanov Russian University of Economics”, order No. 279 of February 14, 2023.

Empirical research methods based on the analysis of scientific foreign and domestic literature were used to theoretically substantiate the purpose and objectives of the study and to determine the limitations in the transformation of companies’ activities regarding the ESG agenda.

The information base of the study includes orders and resolutions of the Government of the Russian Federation, materials of the Central Bank of the Russian Federation, materials of meetings of the Expert Council for Sustainable Development under the Ministry of Economic Development of Russia, international standards for information disclosure, statistical data of the National Register, corporate non-financial reports, analytical reports of rating agencies, analytical studies of the Russian Institute of Directors, and PJSC Sberbank, publications in the electronic scientific library e-library.ru, documents of reference legal systems, and open statistics of the Russian Union of Industrialists and Entrepreneurs (RUIE).

A database of non-financial information for 2020-2021 was created during this research. Feedback on the survey questionnaire developed by the team of authors was also used. The survey questionnaire was sent to 118 companies – members of the Business Russia public organization, and to companies whose non-financial reporting is presented on the RUIE website. When processing the responses to the questionnaire, a database was compiled containing structured information: general information about companies; assessment of companies’ exposure to ESG risks on a 10-point scale; assessment of the most significant ESG factors on a 10-point scale; and availability of policies and reporting on ESG factors.

The combination of methods of quantitative and qualitative analysis of responses made it possible to assess the challenges and opportunities for the development of a system of non-financial information necessary for assigning ratings to companies in achieving sustainable development goals.

4. Results

4.1 Empirical Analysis of the Foreign and Russian Scientific Literature

The authors analyzed scientific publications on the topic of sustainable development with a focus on environmental, social, and management issues for 2010-2022, and revealed a significant increase in the number of scientific articles and monographs posted on the e-library platform. Most scientific papers with ESG keywords have been published in 2021-2022 (Figure 1).

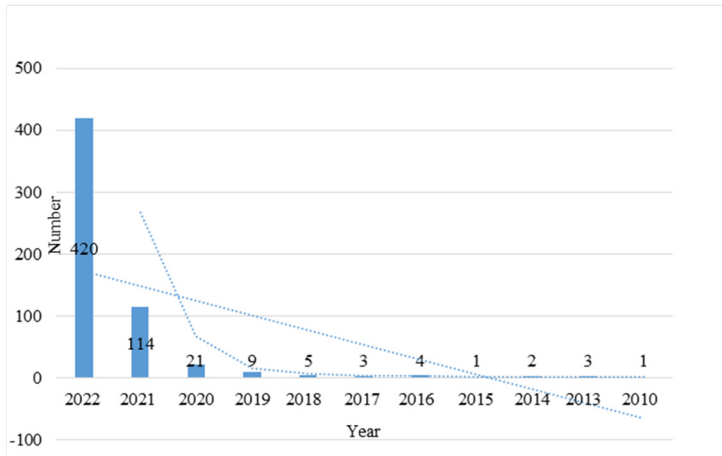


Figure 1: Number of scientific articles with ESG keywords*

Source: Composed by the authors

The main areas of research are devoted to the discussion of the theory and practice of responsible investments and their prospects for the Russian Federation; voluntariness or obligation to follow the principles of ESG and their impact on shareholders' rights; the relationship of environmental and governance aspects of ESG with corporate financial strategy, companies' market value, financial performance, and financial risks; identification of factors hindering the effective implementation of the ESG transformation of management systems; ESG strategies of Russian companies under sanctions; low level of market awareness of environmental, social, and governance factors in the investment decision-making system; state regulation of public non-financial reporting and the role of development institutions in its regulation; and legislative approval of the methodology for verifying corporate reporting.

The key obstacles to ESG transformation include the lack of understanding at the corporate level of the real effect of implementing projects in the field of sustainable development, and the lack of necessary skills in employees and funds for the implementation of such projects (Dubovitskaya et al., 2022).

In the context of anti-Russian sanctions, issues of corporate ESG strategies of Russian companies are discussed, the formation of which is influenced by external and internal factors.

External factors are related to the geopolitical situation, regulatory legal acts governing the development of the ESG agenda in Russia, perception of sustainable development issues by Russian society, etc. Most Russian companies do not plan to revise their sustainable development strategy in the short or medium term. However, the environmental and social components are of great importance compared with the managerial aspect of ESG practice (Izmailova, 2022).

Internal factors are determined by the search for and attraction of talents in the implementation of the principles of sustainable development, the creation of attractive conditions for human capital development, increasing the companies' responsibility for the reliability of data in the ESG sphere, the development of standards and practices for the use of non-financial reporting, both for public and non-public companies, and the digitalization and creation of platforms for ESG data, etc. (Sberbank, 2022; Andreeva & Sonina, 2022; Glazov & Glazova, 2022; Zamyatina & Tishkov, 2022; Izmailova, 2022; Dubovitskaya et al., 2022; Khachatryan, 2022).

The issue of evaluating the impact of ESG factors on business activity remains one of the main problems, since the need to measure all three key aspects of ESG policy makes it possible to determine the degree of correlation between factors, indicators, and their weighting significance, and to create and develop rating standards (Degtyareva & Murzintseva, 2023).

The largest ESG data providers use dozens of metrics when calculating the ESG composite score. They include everything from climate change, pollution-related waste, product liability, tax transparency, labor protection, staff development, and board performance. The weighting of the component in Pillars E, S, and G differs between rating providers, which are based on not entirely transparent and verified data (Kummer et al., 2022), due to the lack of uniform approaches to the collection and analysis of non-financial information, which is an integral part of the ESG transformation.

The results of the empirical analysis of the literature review and studies led to the following conclusions:

- theoretical and practical studies give different estimates of the effectiveness of ESG transformation for business and the economy, which determines their further development using the statistical and factual base;
- the level of maturity of the practical activities in most Russian companies and their readiness for ESG transformation in Russia are at an early stage;
- the focus of ESG strategies of Russian companies is shifting to social and environmental aspects, especially in terms of attracting and retaining talents;
- the openness of ESG information reduces asymmetric assessments of ESG transformation by companies and society;
- there are discrepancies in the assessment (divergence) of specific ESG factors, their indicators, and significance among rating companies.

4.2 Analysis of the Methodologies of Russian Rating Agencies

The study conducted by the authors of the main elements of the rating methodologies of four Russian rating agencies: National Rating Agency (NRA) LLC, Expert RA, Analytical Credit Rating Agency (ACRA), and National Credit Ratings (NCR) LLC showed the following results (Table 1).

Table 1: Rating subjects, objects, and weights of ESG pillars in the methodologies of Russian Rating Agencies*

Russian Rating Agencies	Rating subjects	Rating objects	Pillar weights, %		
			E	S	G
“Expert” RA	Assessing the degree of compliance of the key decision-making process in the company, region, urban district, and sustainable development in environmental, social, and governance areas	Non-financial companies	30	35	35
		Financial companies	15	40	45
		Regions	30	50	20
		Urban districts	30	50	20
NCR	Assessing the compliance of the current practice and strategy of the rating object with the sustainable development goals – environmental protection and restoration, social responsibility, and development of corporate governance	Non-financial companies	30-50	80 minus E-component weight	30
		Financial credit companies	20	40	40
		RMA (regional municipal authorities)	30	40	30
ACRA	Assessing the actions of the rating object in terms of the ability to withstand and minimize risks (national, regional and macro-regional risks)	Non-financial companies	33.3	33.3	33.3
NRA	The company’s exposure to environmental, social, and corporate governance risks and their compliance with basic international and/or national guidelines, standards, and best practices in the field of sustainable development	Companies in the non-financial and financial sectors	A scoring system is used The final score is calculated as the arithmetic mean of the rating scores for three key pillars: E, S and G		

Source: Composed by the authors

The authors noted that Russian rating agencies differ in the definition of the ESG rating (company exposure to environmental and social risks, compliance with current practices and achievement of sustainable development goals, key decision-making in the company), which makes them incomparable, since the subject areas that they measure differ (Table 1).

The objects of ESG ratings are companies and organizations in the non-financial and financial sectors, regions and urban districts, and regional and municipal authorities (RMA).

When assessing companies in the non-financial and financial sectors, in its methodology, the NRA uses indicators that consider the specifics of the industry affiliation of the company's activities: 17 industries for industrial companies and 6 for financial companies (banks, management companies, insurance companies, stock exchanges, etc.). The ACRA methodology is applicable to 35 industries, the list of which is based on the Global Industry Classification Standard (GICS) and the agency's own databases. The "Expert" RA and the NCR agencies have no explanations about the applicability of their methodologies to industries.

When analyzing the evaluated factors in Pillars E, S, and G, their list and number in the providers' methodologies differ in the structure and depth of analysis, expert controversies used, rating scales, and the number of categories therein. Thus, the number of rating categories in the scales varies from three to seven: three (NRA), five (NCR), six ("Expert" RA), and seven (ACRA).

The NRA methodology uses arithmetic mean scores in the calculation for Pillars E, S, and G and in the final rating calculation. To this end, factors and indicators are comprehensively assessed for three key Pillars E, S, and G with the definition of the company's key activities and the selection of industry indicators for evaluation. In addition, additional negative controversies are accounted for when identifying factors that are not considered in any Pillar of the ESG rating.

The "Expert" RA determines the ESG rating based on a weighted sum of scores, stress factors, and support factors. The weights with which the scores of factors influence the rating number differ for companies, regions, and urban districts. Numerical values of support and stress factors (for example, violation of the law) adjust the rating number depending on the strength of influence (moderate, strong, very strong).

The algorithm for determining the ESG rating in the NCR methodology provides for calculating the base scores of each of the three Pillars, calculating the final scores of each Pillar, regarding positive and negative controversies, determining the weighted sum of the scores of the three Pillars and conducting a comparative analysis (peer analysis) with other participants, if the advantages or disadvantages of the rating object are not considered completely when analyzing the key factors and sub-factors of Pillars (E, S and G).

A peculiarity of the ACRA methodology is that, in addition to assessing the company's activities, it evaluates actions to minimize risks and the ability to resist them and determines the level of compliance with best practices. When evaluating a company, its performance indicators are compared with statistical data. In assessing the company's activities, a rank approach is used based on the compliance of percentile ranges and factor assessments. In addition, modifiers (not more than 5%) and analytical controversies (+/-0.5 points or +/-1 points) are applied.

The definition of pillar and factor weights in the ACRA methodology differs from other methodologies. ESG Pillars are evaluated by the same weights – 33.3%; the factor weights in Pillars are also equal – 16.7%. However, the weights of the evaluation stages within Pillar differ: performance evaluation – 40%; assessment of industry risks and corporate governance risks – 20%; and an assessment of the level of compliance with best practices – 40%.

The graphical representations of the groups of factors, indicators, criteria, and controversies used in the methodologies of the analyzed providers differ when evaluating the same pillar (Figure 2).

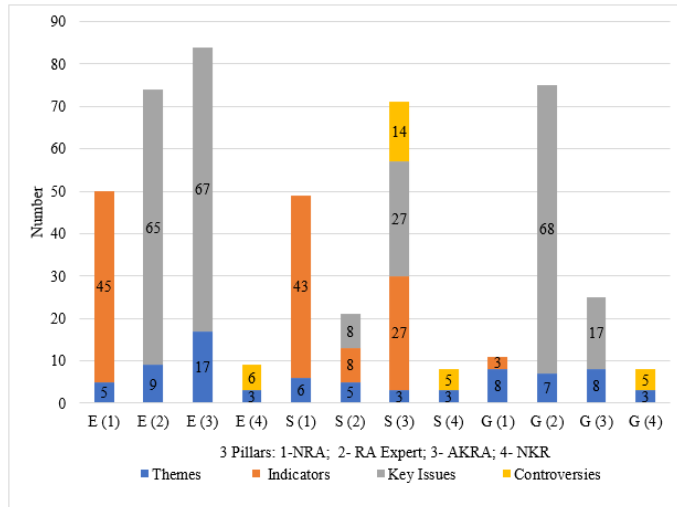


Figure 2: ESG Key Issue Hierarchy of ESG Ratings of Russian Providers (3 Pillars (E, S, G), Themes/Categories, Indicators, Key Issues, Controversies) *

Source: Composed by the authors

For example, when assessing Pillar E (Environment), the methodologies of ESG providers use 5; 9; 17; 3 Themes/Categories, 45 Indicators, 65; 67 Key Issues, and 6 Controversies.

Pillar S (Social) uses 6; 5; 3; 3 Themes, 43; 8; 27 Indicators, 8 and 27 Key Issues, 14 and 5 Controversies.

Pillar G (Corporate Governance) contains 8; 7; 8; 3 Themes, 3 Indicators, 68; 17 Key Issues, and 5 Controversies.

When considering a detailed assessment of Pillar S in the methodologies of the NRA and ACRA rating agencies, the authors note the use of different approaches. The NRA methodology for assessing Pillar S uses 6 groups of indicators (Themes/Categories). The “Human capital” group includes 17 indicators, one of which is the “average salary in the company” indicator. To assess this indicator, three criteria are provided: above the industry average or regional average (scored 1 point), at the industry average or regional average (0.5 points), and below the industry average or regional average (0 points).

In the ACRA methodology, Pillar S is evaluated by 3 groups of indicators. The “average salary” indicator is calculated as the ratio of the total amount of payments to the annual average number of employees, and its dynamics for three years is analyzed. Depending on this, a score is set from -1 to +1 in increments of 0.5 and compared with best practices.

The “Expert” RA and NCR do not use the indicator of average salary in their methodologies. Therefore, the assessment of the social pillar will differ for the same company when using different methodologies.

Thus, the analysis of the methodologies of the four Russian providers showed their methodological incompatibility based on the following:

- different subject areas;
- different terminology;
- rating scales containing three to seven categories;
- the number and content of indicator groups for assessing the Pillars, indicators, key issues, and controversies;
- not all providers use industry indicators, business sizes, revenues, and company headcounts.

4.3 General Characteristics of the Companies Included in the Database Based on Responses to the Questionnaire

Figure 3 shows 96 companies representing 10 types of economic activities selected from the database. They carry out production activities in industry (electricity generation, metallurgy, manufacturing, chemical, oil and gas industries, production of machinery and equipment, production of food and other consumer goods, etc.) and in the non-industrial sector, providing services in transport, construction, retail trade, telecommunications, consulting, finance, and insurance.

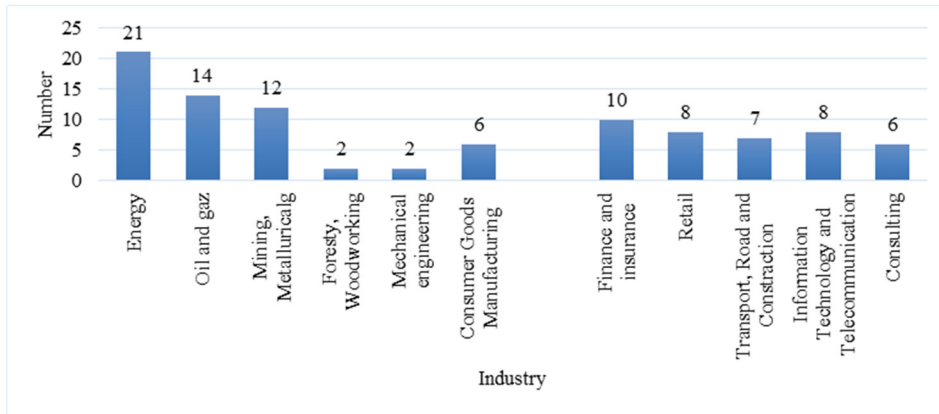


Figure 3: Number of respondents by types of economic activity*

Source: Composed by the authors

If we compare the impact of the industrial and non-industrial sectors on the environment, the environmental damage caused by companies in the industrial sector is more significant than that of the non-industrial sector. Therefore, the question of the questionnaire “*Is your company committed to the principles of sustainable development*”, was answered positively by 78 (81%) companies in the oil and gas, metallurgical, chemical, and energy industries and negatively by 18 (19%) companies in the fields of audit and consulting, finance and insurance, and logistics services. In total, the feedback included 96 answers. These data almost coincide with the number of companies participating in *the preparation of ESG reports*: out of 95 responses received, 76 companies (80%) prepare ESG reports, whereas 19 companies (20%) do not prepare such reports.

The main reasons for preparing ESG reports for 61 companies are requirements from regulators, partners, and consumers; for 74 companies reporting is caused by strengthening the company’s reputation. The motivation for compiling reports to attract investors was noted by 26 companies and 5 companies chose the reduction in the cost of lending.

When compiling ESG reports, companies adhere to the following recommendations: 63 companies follow international standards; 39 companies compile reports on sustainable development; 15 companies compile CSR reports; 12 companies use them in preparing annual reports; 6 companies comply with the recommendations of the Bank of Russia.

The grouping of companies according to the criterion “legal form” showed that most companies were represented by 93 (97%) commercial organizations, including 57 public joint-stock companies, 16 closed joint-stock companies, and 23 companies of other legal forms (Table 2).

Table 2: Main characteristics of the companies*

Year	Number of companies to send the questionnaire	Number of the back the questionnaire	Including		Legal Forms of Organizations		
			Profit organizations	Non-Profit organizations	Public Joint Stock Company	Closed Joint Stock Company	Other
2020-2021	118	96	93	3	57	16	23

Source: Composed by the authors

Public joint-stock companies implement the principles of sustainable development and prepare ESG reports, adhering to the recommendations of international standards.

The grouping of companies according to the main criteria of small- and medium-sized businesses showed that the database included 16 SMEs according to the “headcount” criterion and 20 companies according to the “income” criterion (Table 3). Three companies are referred to as micro-enterprises (employing up to 15 people) by types of economic activities: science and education, agriculture, and the digital sector.

Table 3: Companies in the non-industrial sector according to the criteria of actual headcount and income*

Headcount, persons	Number of companies	Industry	Income, rubles	Industry	Number of companies
16-100	8	Finance and insurance, construction, woodworking, logistics services	under 120 million	Audit and Consulting, Woodworking, Logistics services, Transport and Road Construction, Science, Education, Non-Profit organization, Public organization	12
101-250	4	Consulting, public, organization	under 800 million	Telecommunication, Consumer Goods Manufacturing, Retail, Construction, Finance and Insurance, and Chemicals	6
251-1000	4	Audit, information technology telecommunication, transport, road construction	under 2 billion	Road Construction, Finance and Insurance	2

Source: Composed by the authors

Such grouping allows for the assessment of the contribution made by small- and medium-sized enterprises to the implementation of ESG principles and suggests directions for their involvement in the practice of sustainable development.

Another research result is companies’ assessment of the significance of ESG factors on a 10-point scale. For large companies in the industrial and non-industrial sectors, the factors of the following Pillars are most significant according to averaged estimates: 8.0 points – S (Social); 7.8 points – G (Corporate Governance); 7.4 points – E (Environment). Furthermore, in Pillar S, the level of human capital development and social conditions (development of competencies, labor protection and health, attraction and retention of talents, provision of voluntary social benefits to employees) are the

most significant factors. In Pillar G (Corporate Governance), corporate behavior (business ethics, payment of taxes and transparency, lack of negative information in the media) has the highest significance. For Pillar E (Environment), adverse effects on climate, the level of environmental pollution, and consumption of natural resources are critical.

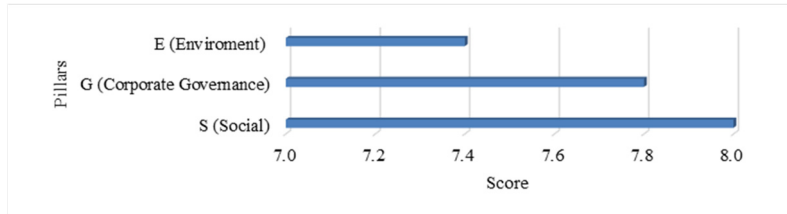


Figure 4: Weighted average assessment of the significance of sustainable development factors made by companies*

Source: Composed by the authors

The obtained practical results confirm the conclusions of other authors regarding the priority of the social component in the activities of Russian companies and in improving the quality of corporate governance on the ESG agenda at the current stage of economic development. The importance of environmental protection remains, but to a lesser extent compared with social and corporate governance areas.

5. Discussion

When preparing the article, the authors set a goal to determine the current problems of ESG transformation in Russia based on empirical analysis and formulate possible solutions. To achieve this goal, the following tasks were set and solved:

1. Foreign and domestic studies aimed at achieving sustainable development goals using ESG tools were analyzed.

The authors noted a significant increase in the number of scientific articles and monographs posted on the e-library platform. Most scientific papers with keywords referring to ESG were published in 2021–2022. In these publications, scholars give different estimates of the effectiveness of ESG transformation for business and the economy. The maturity level of the practical activities in most Russian companies and their readiness for ESG transformation is defined as the initial stage. The key obstacles to ESG transformation include the following: insufficient understanding of the real effect of project implementation in the field of sustainable development at the corporate level, lack of staff with the skills to implement these projects, and insufficient financial resources.

The imposed sanction restrictions did not change the attitude of the leaders of large companies toward the ESG agenda. The geopolitical situation, as the most significant external factor in the formation of ESG strategies, stimulates the development of the domestic ESG ecosystem with regard to territorial, climatic, and social peculiarities, including within the framework of national projects. The implementation of such strategies can be achieved with regard to the companies' internal factors and their corporate policies aimed at finding and attracting talents, creating attractive conditions for the development of human capital, increasing the companies' responsibility for the reliability of data in the ESG sphere, developing standards and practices for the use of non-financial reporting, digitalization, and creation of platforms with ESG data.

The next problem in ESG transformation is defined as insufficient information transparency in

comparing methods for achieving sustainable development goals and asymmetric ESG assessments on behalf of companies and stakeholders. Therefore, it is necessary to follow the recommendations of the information letter of the Bank of Russia on the disclosure of information in the field of sustainable development (Central Bank of the Russian Federation, 2021), but considering restrictions on information that is sensitive to sanction risk.

2. Comparative analysis of the ESG rating methodologies of four Russian providers (National Rating Agency LLC (NRA), Expert RA, Analytical Credit Rating Agency (ACRA), and National Credit Ratings LLC (NCR)) confirmed the theoretical conclusions of studies and scientific publications of other authors (Kummer et al., 2022; Grishankova, 2022; Khachatryan, 2022).

The information that rating agencies use for ESG assessment of companies in compliance with approved methodologies is a large array of data, grouping which differs by thematic areas of assessment, indicators, criteria, and controversies. Discrepancies in the assessment (divergence) of specific ESG factors, their indicators, and significance among rating companies complicate the comparison of ratings, which requires regulation by special bodies.

Similar problems are typical for foreign countries. According to surveys by the European Commission, “84% of respondents indicated that the ESG rating market is not functioning properly. The need for regulatory intervention was noted by 94% of respondents” (Central Bank of the Russian Federation, 2023).

3. For practical confirmation of the differences identified on the basis of a theoretical analysis of the ESG factors used in the assessment, their descriptions, and weights, a database of non-financial information for 2020–2021 was formed according to specified criteria based on the results of a survey conducted among 118 companies – members of the “Business Russia” public organization, and companies that submitted their reports to the website of the National Register of RUE Non-Financial Reports.

The database systematization according to the specified criteria on the impact of ESG factors in the context of the companies’ types, legal forms, income, and headcount made it possible to determine:

- ten types of economic activities of companies;
- most companies (81%) belonging to the industrial sector (oil and gas, metallurgy, chemical industry and energy generation) are public joint-stock companies; they are committed to the principles of sustainable development, and prepare non-financial ESG reports in compliance with the recommendations of international standards;
- 19% of companies in the non-industrial sector (audit and consulting, finance and insurance, and logistics services) do not use the principles of sustainable development in their activities and do not prepare ESG reports;
- the main reasons for preparing ESG reports are to strengthen the company’s reputation (74 companies) and the requirements from regulators, partners, and consumers (61 companies);
- the database contains information about 16 small- and medium-sized businesses according to the “headcount” criterion and 20 companies according to the “income” criterion; 3 companies are micro-enterprises that do not use ESG principles in their activities;
- according to average estimates, the factors of the following Pillars are most significant for large companies in the industrial and non-industrial sectors: 8.0 points – S (Social); 7.8 points – G (Corporate Governance); 7.4 points – E (Environment);
- in Pillar S, the level of human capital development and social conditions is the most significant factor;
- in Pillar E (Environment), the factors of adverse impact on the climate, the level of environmental pollution, and consumption of natural resources are highlighted.

Thus, the obtained results revealed priority areas in ESG transformation, the implementation of which is envisaged by the *Concept of development of public non-financial reporting* approved by the order of the Government of the Russian Federation in 2017. The creation of a national system of non-

financial information should be completed by 2023 and provide for the development of normative legal regulation and methodological support for public non-financial reporting. It should be based on the unified principles of disclosure and composition of non-financial information, increasing transparency, forming industry statistics, and consistency of providers in the selection and description of measurable data. At the beginning of 2023, the Bank of Russia published a report that provided recommendations for developing an ESG assessment methodology and weighing each ESG criterion and element, which confirms the right direction of our research and its practical significance.

The National ESG Alliance, Interfax represented by the Corporate Information Disclosure Center, an authorized agency of the Bank of Russia for corporate reporting disclosure and an expert in developing information systems for risk management, have consolidated their efforts to create the first publicly available ESG Disclosure service to compare and analyze non-financial reporting of 600 Russian companies on more than 60 ESG parameters. This will allow Russian companies to identify their priorities in ESG transformation with less labor and financial effort.

6. Conclusions

This research made it possible to achieve the set goal in identifying the current problems of ESG transformation in Russia.

6.1 Research Findings

This study has a multifaceted novelty and significance, making theoretical and practical contributions.

6.2 Strengths and Limitations

The strengths of this study include:

- an increase in the number of publications for 2010-2022 on the Russian e-library platform was determined, which amounted to 420 times, with the main growth occurring in 2021-2022;
- the absence of an objective evidence base for the effective implementation of ESG principles
- the discrepancies in the assessment (divergence) of specific ESG factors, indicators, criteria, controversies, and their significance in the methodologies of the four Russian ESG rating providers was confirmed;
- a survey was conducted on the impact of sustainable development factors according to specified criteria on the activities of 118 Russian companies belonging to 10 types of economic activities for 2020 and 2021;
- an Excel database was formed to identify the most significant ESG factors by industry, company type, headcount, income, and available ESG policies and reporting.

The limitations of the study are associated with some responses to the questions of the developed questionnaire from small enterprises and organizations related to the information technology industry and the lack of a clear and precise system for regulating non-financial information.

6.3 Recommendations for Future Research

The theoretical significance lies in the conceptual substantiation of promising directions for the use of quantitative and qualitative methods for processing non-financial information and assessing new opportunities in the formation of a database for ESG rating. This allows for a differentiated approach to the development of an ESG transformation strategy and policy, considering industry specifics, the size, and income of the company.

The continuation of this research may be related to the following:

- clarification of the subject areas of rating and the definition of the concept of “ESG-rating”;
- increased transparency and comparability of the set of factors and their weights based on industry affiliation and other criteria;
- development of a methodology for rating small enterprises;
- the formation of a methodology for a unified national ESG reporting system and the development of an electronic platform where regulated non-financial reporting will be accumulated by the types of economic activity.

The practical importance of this research is associated with a more in-depth and differentiated approach to the use of additional criteria when analyzing non-financial information, assessing the level of ESG transformation of Russian companies, and obtaining information about their commitment to the principles of sustainable development.

6.4 Policy Recommendations

The research results will be useful for Russian companies in the elaboration of sustainable development policies; for rating agencies to ensure the compatibility of the ESG rating methodology; for professional associations and expert communities to verify rating results; and for educational organizations to train specialists in this field.

6.5 Managerial Implications

The research results will make it possible to fully realize the potential of companies not involved in ESG transformation based on the use of the best practices of Russian companies.

Summarizing the key results of the research, further studies can be continued in the framework of a deeper analysis of the following issues of ESG transformation by Russian companies:

- summarizing the results of ESG transformation by Russian companies under the conditions of EU and US sanction restrictions;
- identification of the most significant ESG assessment blocks for IT companies and socially oriented SMEs;
- development of digital platforms for industry-specific data collection;
- development of a system of professional (re-)training and advanced training in the field of non-financial reporting;
- analyzing conditions for developing international cooperation in the field of non-financial reporting.

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