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DRIVING ESG BEHAVIOR AS A CHANGE MANAGEMENT TOOL FOR SUSTAINABILITY

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Abstract

In methodological and empirical meaning, usually arises the challenge of reasons causing increased ESG importance, particularly for advanced and change-oriented businesses, ESG is sometimes referred to as sustainable investing, which involves conducting business that provides long-term value without producing any negative effects on the environment or society.

A good ESG strategy includes sustainability factors – such as a company's efforts toward reducing its carbon footprint, going green, encouraging diversity or introducing employee wellness programmes. As such, an ESG strategy paves the way for a company to gain investor confidence, earn customer loyalty, reduce operating costs and improve both asset management and financial performance.

ESG should be a transformational, change management effort that touches every aspect of the business. Otherwise, managers will experience confusion over their role in implementing an ESG strategy, teams will continue to operate business as usual and ESG commitments will fail. However, leaders who commit to reworking norms, cultivating new behaviours and building new processes will create an environment in which ESG becomes part of the culture and a 'North Star' that helps orient all decisions. This, in turn, will favourably position businesses with regards to ESG and help them play a meaningful role in addressing the significant environmental and social issues of our times. Companies need to take an active role in the community, beyond just making a profit. The positive benefits of this strategy include the company's expansion and the durability of its success.

Sustainable development is a core principle of the Treaty on European Union and a priority objective for the EU's internal and external policies. The United Nations 2030 Agenda includes 17 Sustainable Development Goals (SDGs). ESG sustainability is crucial for businesses as it enhances reputation, attracts socially conscious investors, reduces risks, fosters innovation, and aligns with evolving consumer preferences, driving long-term profitability while contributing to a more sustainable and equitable world.

The goal of this research paper is to examine the influence of ESG towards the overall competitiveness and sustainable development of businesses.

Keywords: change management, ESG behavior, sustainability

JEL Classification: M1, M14, M16, Q01

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1. Introduction

Corporate Social Responsibility (CSR) has evolved since the 1990s. Originally, it was synonymous with philanthropy. Yet, evolving environmental, social and governance (ESG) principles have reshaped CSR. ESG, unlike the older concepts of CSR, is deeply embedded in the strategic decision–making processes of organisations. Companies are increasingly integrating ESG considerations into their operational frameworks, affecting everything from investment choices to supply chain management. As focus on ESG intensifies, the implications for businesses are profound. Customers, investors, and regulators are now scrutinising corporate practices more closely than ever. Initially, regulatory measures merely concentrated on the need for transparency.

All sustainability and social impact work are, effectively, change management because leaders have to be able to take care of the human and technical side of changes. This implies that suitable technology (structured process, toolsets, assessments and measurements) must be in place for a change to be implemented. The leaders determine why these transitions are necessary and, therefore, ensure that the change is adopted with minimal resistance.

Effective ESG change management recognises that the ownership of sustainability-related matters is not a top-down approach but, rather, the responsibility of all employees across a business. To achieve an impactful sustainability strategy, it is essential to develop a sustainable workforce that shares the same vision about the company's impact on the environment and climate change.

ESG can be considered a subset of sustainability, which is defined by the UN World Commission on Environment and Development as *'meeting the needs of present generations without compromising the ability of future generations to meet their own needs'*. Leaders who commit to reworking norms, cultivating new behaviours and building new processes, will create an environment in which ESG becomes part of the culture and can assist with all decisions. This will facilitate organisations to orient ESG to play a meaningful role in addressing the significant environmental and social issues of our time.

Sustainability in organisations extends beyond environmental stewardship. It represents a commitment to operate in an economically, socially and environmentally responsible manner with a focus on the triple bottom line of planet, people and prosperity. This holistic approach closely aligns with Environmental, Social and Governance (ESG) framework, which collectively measures an organisation's ethical impact and sustainability practices. Sustainable practices support ecological, human, and economic health, and operate under long-term priorities based on the assumption that resources are limited. ESG criteria encompasses three pillars of responsibility:

- ✓ *Environmental:* refers to a firm's impact on the environment, such as the company's energy usage, pollution/waste, use of natural resources, and/or positive improvements like switching to renewable energy sources;

- ✓ *Social:* correlates to a firm's impact on society and company stakeholders – this can include factors such as product safety, employee treatment and diversity, charitable initiatives, supply chain relationships, impact on local communities, etc.;
- ✓ *Governance:* refers to company's internal governance structure. Metrics for governance might include board diversity, accounting policies, executive pay and compensation, ownership structure, and ethical behaviour within the higher management chain.

It is important to note that investors and companies interact with ESG criteria somewhat differently, investors usually focus on integration of ESG criteria into their investment decision, and companies have an added responsibility of integrating ESG criteria, and disclosing ESG data to stakeholders and investors, in particular.

The outline of this study is as follows:

- The study aims to examine the integration of ESG criteria into the currently prevailing business model in enterprises. There is mounting evidence that ESG can act as a catalyst for business growth, on the back of improvements to brand reputation, financial performance, and investor appeal.
- Our research aim is to highlight that businesses can enhance their sustainability footprint, social impact and contribution to local communities by incorporating ESG considerations into their core operations and decision-making processes.
- The integration process intends to motivate firms to reform their business models, foster sustainability, and enhance financial performance.
- Based on the results, suggestions, and strategies for improvements to facilitate ESG adoption in various industry sectors.

The rest of the paper is structured as follows: a literature review appears in the second section. Section 3 introduces the structure of the research model. Section 4 details the empirical analysis, followed by a discussion, and, in the last section, research results are summarised and suggestions for future research are made.

2. Literature review

Environmental, Social, and Governance (ESG) goals have become increasingly important for businesses and investors in recent years. These goals reflect a growing awareness of the need to prioritise sustainability, ethical practices, and responsible management to create long-term value and mitigate risks associated with environmental and social issues. As companies worldwide strive to integrate ESG principles into their operations, they face various challenges that must be navigated to make meaningful progress.

The following list outlines nine key-challenges organisations encounter when pursuing ESG goals: (Wastebits, 2023)

1. *Defining clear and consistent criteria:* If you are considering expanding your portfolio to include sustainable investment, you should have a detailed understanding of the ESG criteria and be able to categorise them within the spectrum of green investment forms.
2. *Data availability and quality:* The need for consistent, reliable and comparable ESG data across companies and industries makes it challenging to measure progress and ensure transparency in achieving ESG goals.
3. *Short – termism:* Companies often prioritise short – term financial gains over long – term sustainability, making it difficult to focus on ESG goals that require long – term commitment and investment. ESG investments may be minimised or cut entirely to hit short-term earning goals, possibly undermining shareholder rights as a result.
4. *Integration with business strategy:* Isolated ESG action plans don't work. Incorporating ESG goals into a company's core business strategy can be challenging, as it often requires a fundamental shift at every level of an organisation from mission and vision to values, strategy and planning. This integration lays the foundation for creating more sustainable, long-term business value.
5. *Regulatory uncertainty:* The evolving regulatory landscape and varying requirements across jurisdictions challenge companies trying to implement ESG initiatives and comply with global standards.
6. *Investor expectations:* ESG engagement offers a unique opportunity for understanding and clarifying investor ESG expectations. Aligning ESG goals with the diverse expectations of investors can be challenging, some may prioritise financial performance over sustainability. On the contrary, others may prioritise certain ESG factors over others.
7. *Greenwashing:* Companies may engage in greenwashing or make misleading claims about their ESG performance, which can undermine the credibility of ESG initiatives and make it more difficult for stakeholders to distinguish genuine progress from mere marketing.
8. *Limited resources:* Implementing ESG initiatives often require significant investments in time, money, and human capital, which can be challenging for companies with limited resources.
9. *Supply chain complexities:* Ensuring compliance with ESG goals throughout complex and global supply chains may be difficult, since companies may need more visibility and control over the practices of their suppliers and subcontractors.

These and many other market dynamics indicators arise the imperative for business organisations to re-evaluate and re-align their operational philosophies with sustainable practices. Many executives are highly aware of the benefits of becoming a sustainable business. They have heightened aspirations around sustainability and ESG and want to implement their strategy but have difficulty translating it into action. Every organisation begins the journey from a different starting point, as well as point of view.

From a change management perspective, success for many organisations depends on their HR, customers and stakeholders "adopting and using" sustainability in the first instance. They also need people to adopt and use the technical solution delivered by each sustainability project or initiative. These are distinct change journeys, and success in one may not necessarily deliver success in another.

Resistance to sustainability – oriented change is a significant hurdle. This can stem from ~~a~~ lack of understanding or buy–in for sustainability, or fear of the unknown arising from sustainability projects. Measuring and reporting sustainability outcomes can be complex, requiring new systems and processes. Retrofitting sustainability into existing business models can require a fundamental rethink of operations and strategy. Every change or initiative may also have significant impacts on the way people do their jobs. So, despite the clear benefits, the road to sustainability involves very real change challenges.

In conclusion, pursuing ESG goals is a multifaceted and complex endeavour that requires companies to overcome numerous challenges. Despite these obstacles, the importance of ESG initiatives in fostering sustainable business practices and long-term value creation cannot be overstated. By addressing the challenges identified in this list, organisations can develop more effective strategies and build more robust ESG frameworks that contribute to a better, more responsible business environment.

❖ ESG regulation in the EU

The CSRD (Corporate Sustainability Reporting Directive) is part of the European Green Deal, determined as a set of policies and initiatives focused on shifting the EU towards a more sustainable, responsible, and digital economy. To help fund the Green Deal, the EU launched the Action Plan for Financing Sustainable Growth that outlines reforms in three areas:

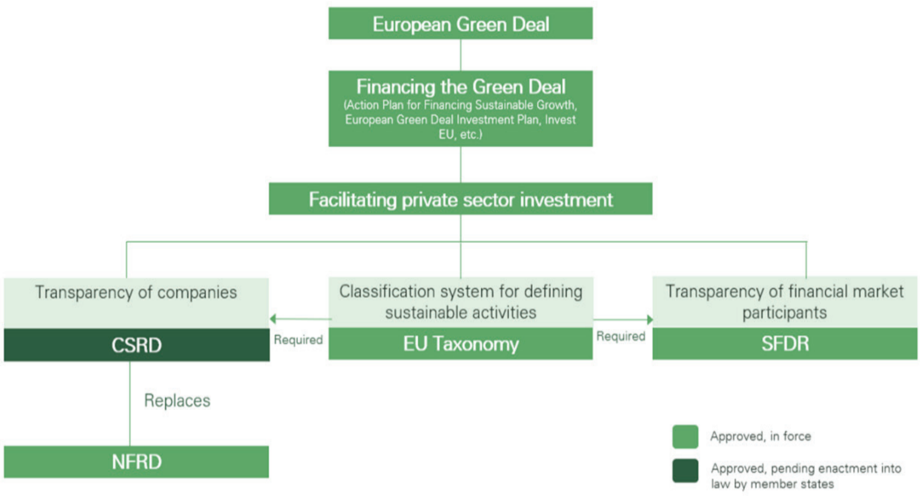
- **Moving capital flows toward sustainable investment, in order to achieve sustainable and inclusive growth:**
  - Establishing an EU classification system for sustainability activities;
  - Creating standards and labels for green financial products;
  - Fostering investment in sustainable projects;
  - Incorporating sustainability when providing investment advice;
  - Developing sustainability benchmarks.

- **Mainstreaming sustainability into risk management:**
  - Better integrating sustainability in ratings and research;
  - Clarifying institutional investors and asset managers' duties;
  - Incorporating sustainability in prudential requirements.
- **Fostering transparency and long-termism in financial and economic activity:**
  - Strengthening sustainability disclosure and accounting rule-making;
  - Fostering sustainable corporate governance and attenuating short-termism in capital markets.

The CSRD is a key-supporting parameter for this plan. By requiring companies to disclose finance-grade information of their ESG performance in their annual reports will improve the transparency, credibility, and comparability of such data. In turn, this process will help investors and other stakeholders make informed decisions about the companies they engage with, funnelling more capital toward sustainable businesses and investments. It also facilitates greater corporate accountability by encouraging companies to integrate ESG considerations into their business practices. (Trust, 2023)

Figure 2.1 shows all key-policies supporting the European Green Deal and EU Action Plan for Financing Sustainable Growth. It aims to improve private sector transparency and accountability around ESG impacts and risks, as well as to promote sustainable economic growth and investment in the EU.

Figure 2.1 How does the CSRD relate?



Source: https://www.onetrust.com/blog/ultimate-guide-to-eu-csrd-esg-regulation-for-businesses/, *Accessed: 21 June 2023.*

The SFDR ESG regulation focuses on the transparency of financial market participants, including banks, insurance companies, asset managers, and pension funds. It requires that these organisations disclose information about their ESG policies, risks, impacts and performance at both the entity (company) and the product level. Financial firms with investment funds must also disclose what percentage of their products are in line with the EU taxonomy. On the other side, for products that don't meet the required criteria, these companies must provide an explanation why they do not do so. By requiring the EU Taxonomy as a reference, the SFDR aims to encourage financial market participants to consider the ESG impacts of the products and services they offer and advance the financing of sustainable economic activities.

As the focus on ESG criteria intensifies, implications for businesses are profound. Customers, investors, and regulators are now scrutinising corporate practices more closely than ever. Initially, regulatory measures focus on the need for transparency. However, the challenge is evolving, because regulators are now demanding proof and accountability. Questions such as "Is this true?" and "Can you substantiate what you disclose?" reflect this heightened scrutiny.

For example, compliance with the EU Taxonomy requires companies to collect detailed information from their clients regarding adherence to minimum social safeguards, including human rights due diligence. These inquiries often feature prominently in client contract letters. Similarly, recent legislation, like the Corporate Sustainability Due Diligence Directive (CS3D), underscores the necessity for thorough supplier due diligence, making it clear that organisations must extend their ESG commitments throughout their supply chains.

2.1. Socially Responsible Investment

SRI is defined as an investment philosophy that combines ethical or environmental goals with financial goals. (MDPI, 2023) While the historical origin of SRI stems from religious roots dating back two millennia, the demand for its implementation has increased since the 2008/2009 global financial crisis.

The development of SRI has resulted in the emergence of different terminologies that focus on specific dimensions of investment strategies, such as responsible investing, ethical investment, and green investment. For example, green investment is considered a new subset of SRI, focusing on environmental issues; it is defined as the investment necessary to reduce greenhouse gas and air pollutant emissions without significantly reducing the production and consumption of non-energy goods. Terminological differences can be explained in terms of differences in cultural aspects. For example, references to responsible investment are commonly used in the United Kingdom, whereas they are partly avoided in France and the United States because they do not include several important social aspects.

Much of the SRI literature focuses on comparing the financial performance of traditional investments with SRI. A review of SRI between 1986 and 2012 found that most papers indicate that SRI performance equals that of traditional investments, and, as such, positively affects SRI activities and financial results. A recent SRI literature reviews a more extended period (1981–2018) and identified five thematic facts: comparison of SRI with traditional investments, investor behaviour, SRI compared with corporate social responsibility, institutional investors, and the construction of an SRI portfolio. In addition, a systematic SRI review identified three themes, mostly falling into SRI performance studies, followed by investor behaviour and SRI development studies. Another contemporary study (Losse, M.; Geissdoerfer, M., 2021) extended the overall SRI importance and understanding of Widyawati through finding of 8 common keywords in SRI literature: *corporate sustainability performance measurement, organisational studies, market reporting and perspective on SRI, governmental and stakeholder perspective, firm strategy and sustainability, corporate financial perspective, methods and books, ethical/sustainable mutual funds.* Another study classified SRI into four types: *socially based investments that focus on solving social issues, environmental investment, socio-environmental investment, and sustainability.*

According to the 2020 Global Sustainable Investment Review, which provides a global perspective on investment strategies in relation to increased SRI integration, ESG integration ranks first, followed by negative/exclusionary screening, corporate engagement and shareholder action, norms-based screening, sustainability-themed investing, positive/best-in-class screening, and, lastly, impact/community investing. Another significant expert analyses (Eccles, N.S.; Viviers, S., 2011) examined an investment strategy, mainly referring to ESG integration among 190 academic papers from 1975 to the middle of 2009. The authors found that ESG integration is frequently mentioned in SRI literature.

2.2. ESG Integration

Concerns about the environment have raised global awareness of sustainability issues, thereby shifting traditional investments directed toward profit maximisation to ones that support sustainability. The current tendency of integrating sustainability and ESG in the financial market is termed SRI. SRI refers to ESG integration based on an explicit and systematic consideration of environmental, social, and governance factors in the investment decision-making process. The definition of ESG can be broken down in terms of three factors. Environmental factors consider how a company performs as a steward of the natural environment. Social factors examine how a company manages its relationships with its employees, suppliers, customers, and the communities in which it operates. Governance factors include a company's leadership, executive pay, internal controls, audits, and shareholder rights. These factors are used as a set of standards to assess a company's operations when screening for investments. (MDPI, 2023)

Empirical research shows that the effects of ESG on financial markets, as represented in firms' financial performance and value, are being debated in terms of both positive and negative impacts. A prominent study consisting of more than 2000 empirical findings (Friede, G.; Busch, T.; Bassen, 2015) revealed that most ESG research findings indicate a positive impact of ESG on firms' corporate financial performance. In addition, a positive relationship was found between ESG disclosure and profitability in European firms. A survey of empirical research in accounting and finance literature spanning 45 years also found a positive link between ESG and financial performance. However, other findings indicate a negative impact of ESG on financial performance.

Most relevant ESG literature provides mixed signals regarding the positive and negative market values of ESG reporting. One author argues that a socially responsible market leads to an increased number of stakeholders. Others find a negative impact on market value and recommend improving report quality to mitigate this.

Investors play an essential role in supporting ESG and ethical practices, which is reflected in the literature in terms of investor-based integration of ESG in decision-making, the process of investing in managing risks, and improvements to the investment process. However, research has also identified negative effects of investor integration of ESG, such as lack of consideration of the core issues that drive business models and finance, lack of a business case, poor quality of data, and absence of clear standards and definitions. There is evidence to manager-based integration of ESG into investment strategies at different levels, ranging from full integration to low integration, and using ESG reporting for reducing risk rather than for maximising value.

2.3. Firm Sustainability

Addressing sustainability at firm level includes aspects such as the state of product recycling, sustainability issues within operations, strategies and business routines, and business models. Sustainability reputation significantly affects customer perception. For instance, a study reported a positive impact of sustainability (CSR and ESG) on a firm's reputation. Another study suggested that public awareness motivates firms to develop sustainability capabilities. Firm sustainability has been defined as successful adaptation to change and findings opportunities to offer valuable services—delivered efficiently and effectively—by achieving corporate sustainability through environmental, social, and economic factors to enhance efficiency. The management pillars that specifically address sustainability can be classified as follows: (1) corporate strategy; (2) management of human resources; (3) knowledge and innovation management; (4) measurement; (5) disclosure of independent assurance, and (6) integrated management systems. (MDPI, 2023)

The importance of integrating sustainability into a firm's strategy is often discussed in ESG literature. For instance, it has been suggested that greenwashing occurs because of the absence of knowledge of the process of integrating sustainability into business routines and strategies. Experts examined the integration of economic, environmental, and social factors into different firm strategies, which they classified into an introverted strategy for risk mitigation, an extroverted strategy for legitimisation, a conservative strategy for efficiency, and a holistic visionary strategy. In addition, another detailed study (Cavaleri, S.; Shabana, K., 2018) provided a conceptual framework for linking sustainability strategies with Porter generic strategies. They suggest that radical innovation in sustainability initiatives leads to positive financial performance. A further study (Engert, S.; Baumgartner, R.J., 2016) investigated factors involved in the successful implementation of a corporate sustainability strategy related to organisational structure, culture, leadership, management control, employee motivation and qualifications, and internal and external communication.

Literature on the integration of sustainability into the business model concentrates on identifying features and frameworks, developing archetypes, and visualising and simulating sustainable business models.

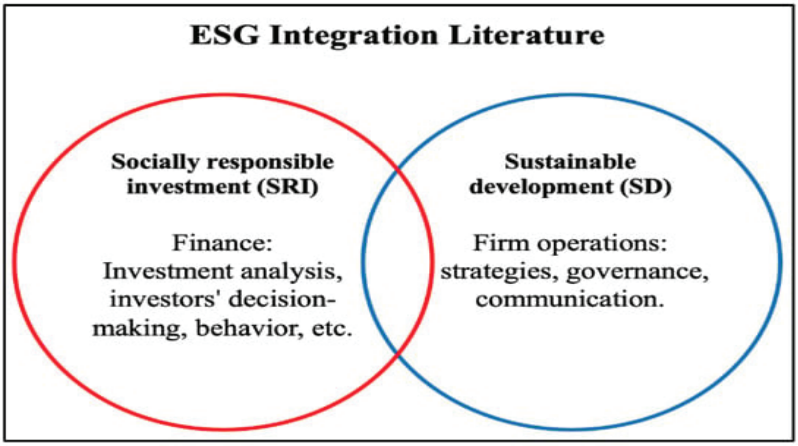
2.4. ESG Integration into Firms: Sustainable Development

The integration of sustainability and ESG into firm operations is referred to as SD. SD has been defined in corporate activities as balancing current sustainability with economic, environmental, and social aspects while also addressing company systems, such as operations and production, the organisational system, governance, assessment, and communication. (MDPI, 2023)

Few empirical studies have examined the impact of ESG on firm operations. The discussion is mostly limited to the positive impact of strategies that consider ESG performance, as well as corporate governance and ESG reporting. A positive impact of regulation on reporting strategies and governance practices is noted in firms becoming proactive in addressing sustainability through communication, transparency, stakeholder engagement, and the improvement of relationships with external resources.

However, ESG, as an indicator of sustainability, is criticised for not showing the position of firms with regard to the sustainability and trustworthiness of ESG data. Figure 2.4.1 illustrates ESG integration in ESG literature in terms of both investment and internal operations.

Figure 2.4.1 ESG Integration Literature



Source: https://www.mdpi.com/2071-1050/14/5/2959, *Accessed 21 June 2023*

It quickly becomes clear that real impact will require companies to undergo a fundamental shift of how decisions get made at all levels of the business, from focusing primarily on profit maximisation to considering a range of factors and stakeholders. Commitments must, therefore, be paired with organisational change efforts that empower day-to-day decision-makers, such as regional managers, to work towards and be held accountable for these commitments.

This is business transformation at its purest. Just as a company undergoing a digital transformation would invest in reorganising their operations, ESG leaders must deploy all change management tools at their disposal to successfully embed ESG priorities into the fabric of their business operations. Companies committed to ESG must, thus, create a culture and an operating system that prioritise ESG goals.

No company can prosper nowadays if it is not involved in the community and the people around it. Companies need to take an active role in the community, beyond just making a profit. Positive benefits of this strategy include the company's expansion and the durability of its success.

Businesses must define clear objectives and ambitions that align with their corporate principles. Change management provides a top-down, structured approach, by navigating the complexities of ESG integration; for example, it can include specific training programmes designed to change corporate culture. By identifying potential risks and opportunities, organisations can adapt their strategies accordingly. This adaptability not only addresses compliance challenges but also opens doors to innovation and growth. As companies engage in sustainable practices, they may discover new markets or enhance their brand reputation, creating value for shareholders and society.

The evolution of CSR into a comprehensive ESG strategy requires a multifaceted approach that encompasses change management principles. Organisations are increasingly seeking CSR support services to help navigate these new realities. This shift indicates that the concept of CSR is expanding beyond its original meaning, promoting its' strategic imperative.

As we move forward, several takeaways emerge for our clients: *first*, the importance of embedding ESG considerations into corporate strategy cannot be overstated; *second*, effective change management will be vital in identifying and addressing emerging risks, and *third*, organisations must view compliance as an opportunity to innovate and enhance their competitive edge.

2.5. Black Sea Sustainable Development Report

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. UN recognises that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

The Sustainable Development Report (SDR) is a flagship publication by the Sustainable Development Solutions Network (SDSN) that annually assesses the progress of all UN Member States regarding the SDGs. Assessment is based on a set of data and indicators. Data are collected from a variety of sources, including national statistical offices, as well as international and civil society organisations. The indicators are used to track progress on the SDGs and identify areas where further action is needed.

The report shows that multiple and simultaneous international crises have halted progress on the SDGs. It is remarkable that the 2022 SDR revealed that the world is no longer making progress on the SDGs due to health, climate, biodiversity, geopolitical and military crises. The SDR includes several indices that are used to measure progress regarding the SDGs. The most important one is the SDG Index, which is a composite measure of progress on all 17 SDGs.

3. Data and Methodology

This research discusses the importance of ESG for operations within a certain business. With growing scrutiny on businesses' role in addressing environmental and social outcomes, many companies are embracing sustainable business practices. Sustainability has become a strategic imperative for companies as they position themselves for the future. The environmental and social challenges the world faces today are complex and urgent. The stakes are getting higher. That's why value-led sustainability is everybody's business.

Data used are secondary: they are the result of research on Environmental, Social, and Governance Integration into the Business Model. In order to provide a comprehensive and transparent view of the relationship between ESG and business models, the data obtained are based on the SALSA framework. (MDPI, 2023)

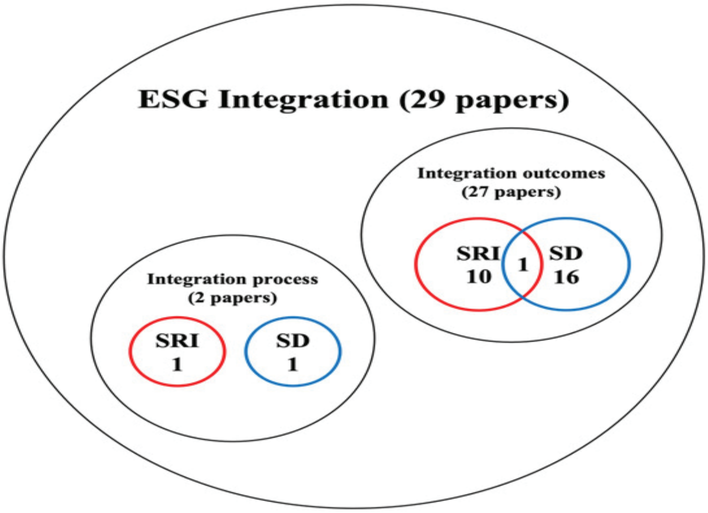
The methodology used in the Sustainable Development Report of the SDSN is based on the following steps:

– *Data selection:* The SDSN uses official SDG indicators endorsed by the UN Statistical Commission wherever possible. Where there are data gaps or insufficient data for an official indicator, the SDSN includes other metrics from official and unofficial providers;
– *Normalisation:* The SDSN normalises the data for each indicator to ensure that they are on a comparable scale. This is done by either using a min-max normalisation (where the lowest value is set at 0 and the highest value is set at 1) or by using a z-score normalisation (where data are transformed to have a mean of 0 and a standard deviation of 1);
– *Weighting & aggregation:* The goal score is calculated as the arithmetic average of all indicator scores within a given SDG. Indicators for a specific goal are weighted equally when aggregated into a goal score. The 17 goal scores are, in turn, also weighted equally when aggregated – using the arithmetic average - into the overall SDG index score;
– *Ranking:* The SDSN ranks countries based on their SDG index scores. The country with the highest score is ranked first, while the country with the lowest score is ranked last.

4. Results and discussion

Figure 4.1 shows the results of the analytical discussion of Aldowaish, Alaa, et al., in 2022, fundamentally focused at ESG and the business models. Principally, authors analysed 29 papers based on process and outcomes and distinguished them based on ESG integration along the lines of SRI and SD.

Figure 4.1 Paper analysis results of ESG integration process and outcomes

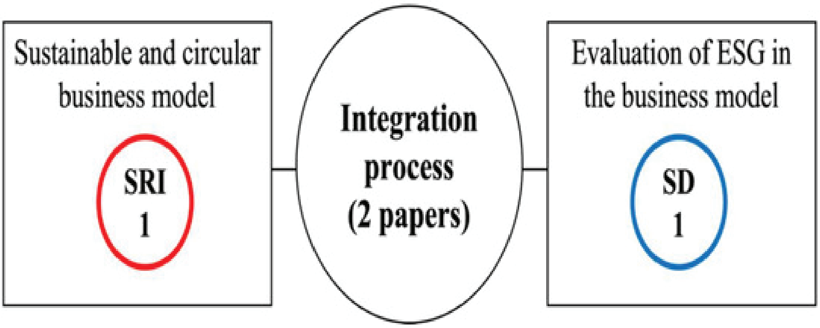


Source: https://www.mdpi.com/2071-1050/14/5/2959, *Accessed 21 June 2023*

Paper expert findings revealed that 27 papers conceptualised ESG into the business model as an outcome, they included 10 papers along the lines of SRI, 16 papers following the view of SD, and 1 paper that addressed both SRI and SD. The papers provided only a general conception of the relationship between ESG and business models with no details of how the integration actually occurred. They grouped similar integration outcomes into four dimensions: (1) integration behaviours of ESG, in which the literature discusses the impact of government regulations, investors, and banks on integration behaviour; (2) the advantages of ESG integration for firms and investors; (3) ESG practices, such as an examination of current cases addressing ESG in the business model; and (4) critical views of ESG in the business model. (MDPI, 2023)

Of the remaining two papers, the first examined the integration process based on the SRI view, while the second paper addressed the integration in terms of SD. The latter deals with a firm integrating the concepts of sustainability and circular economy into its business model through value proposition, value delivery, value creation, and value capture.

Figure 4.2 Integration process

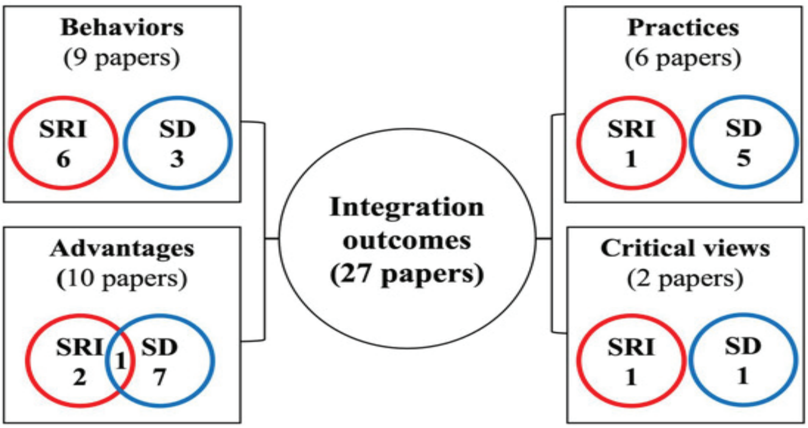


Source: https://www.mdpi.com/2071-1050/14/5/2959, *Accessed 21 June 2023*

Figure 4.2 shows the two papers that discussed the ESG integration process. The first deals with the integration process from the SRI perspective and supports the evaluation of the firms' ESG performance through their ESG and business model links. The second discusses sustainability from an SD perspective in terms of the four ESG business model elements, value proposition, creation, delivery, and capture. In this case, the business model fosters sustainability.

4.1. ESG Integration: Outcomes

Figure 4.1.1 Integration outcomes



Source: https://www.mdpi.com/2071-1050/14/5/2959, *Accessed 21 June 2023*

Figure 4.1.1 presents the details of the findings on the ESG integration outcomes; 9 papers were found related to integration behaviours, 10 related to the advantages of ESG integration, 6 to practices of ESG, and 2 papers related to critical views.

❖ Limitations and future changes for North Macedonia

ESG practices are still at the early stages of development in North Macedonia; the Macedonian government has taken steps to promote sustainability and encourage responsible business practices in the country. In 2020, the government adopted the National Strategy for Sustainable Development, which aims to promote social, economic, and environmental sustainability in the country.

The inclusion of ESG factors in the Corporate Governance Code highlights the importance of responsible corporate governance practices and promotes transparency and accountability among publicly traded companies in North Macedonia. However, it is worth noting that not all companies operating in North Macedonia have fully integrated ESG considerations into their corporate culture.

While some companies have embraced sustainability and social responsibility as core values, others have been slower to adapt to these trends. As such, the degree to which ESG factors are integrated into the corporate culture of Macedonian companies can widely vary. Overall, there is growing awareness of the importance of ESG factors in the business community in North Macedonia, and this is reflected in the country's regulatory framework. However, more work may be needed to fully integrate ESG considerations into the corporate culture of all companies operating in the country.

5. Conclusion

Companies committed to ESG must create a culture and an operating system in which ESG goals are prioritised. Leaders can start by *acknowledging ESG challenges, modelling hard trade-offs, reworking the system* and *empowering decision–makers.* ESG should be a transformational, change management effort that touches every part of the business. Leaders who commit to reworking norms, cultivating new behaviours and building new processes will create an environment in which ESG becomes part of the culture that can assist with all decisions. This will advance businesses to a position from which they can lead to ESG integration and play a meaningful role in addressing the significant environmental and social issues of our times.

Sustainability in organisations extends beyond environmental stewardship. It represents a commitment to operate in an economically, socially and environmentally responsible manner focusing on the Triple bottom line of the planet, people and prosperity. This holistic approach closely aligns with Environmental, Social and Governance (ESG) criteria, a framework that collectively measures an organisation's ethical impact and sustainability practices. As an opposite, managers will experience confusion over their role in implementing an ESG strategy, teams will continue to operate business as usual average and ESG commitments will not be fulfilled.

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people can sustainably enjoy peace and prosperity. The 17 integrated SDGs recognise that an action in one area will affect outcomes in others, and that development must balance social, economic and environmental side of sustainability.

ESG sustainability is crucial for businesses since it enhances reputation, attracts socially conscious investors, reduces risks, fosters innovation, and aligns with evolving consumer preferences; besides, it drives long-term profitability while contributing to a more sustainable and equitable world. Implementing ESG sustainability requires strategic integration into business operations, utilising modern technology, engaging stakeholders, and accurately measuring and reporting performance. While challenges may arise, organisations can overcome them through education, communication, and prioritising sustainable practices. It should serve as a principal pathway for intensive adoption and implementing of SDGs in developing economy, such as North Macedonia.

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