Historical context of social, environmental and corporate governance (ESG) and its impacts on organizations: A literature review

https://doi.org/10.56238/sevened2024.010-007

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ABSTRACT

The objective of this research was to explore the historical development of social, environmental and corporate governance and its impacts on organizations. To this end, a bibliographic research was carried out through the survey of articles on the SciELO, Google Scholar and Scopus platforms. As a result, it was found that social, environmental, and corporate governance (ESG) has emerged as a crucial paradigm in contemporary business management, reflecting a transformation in societal expectations about the role of organizations. This literature review addressed the historical development of ESG governance and its impacts, from the emergence of the corporate social responsibility movement to its expansion to include environmental and governance issues. It was evidenced that ESG governance profoundly influences financial performance, brand reputation, risk management, and stakeholder engagement in organizations, promoting greater resilience, attracting investors and conscious consumers. It is crucial for organizations to recognize the importance of ESG governance and incorporate it into their operations and strategies, benefiting not only themselves but also contributing to the sustainable development of society. Despite the benefits, challenges such as the lack of standardization in the disclosure of information and the need for robust metrics still persist, requiring collaborative efforts between companies, investors, regulators, and other stakeholders. In summary, ESG governance is essential for long-term value creation, enabling companies to contribute to a more just, equitable, and sustainable world by embracing its principles.

Keywords: Social, Environmental and Corporate Governance (ESG), Sustainability, Environment.

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INTRODUCTION

Social, environmental, and corporate governance (ESG) has emerged as a crucial area of concern in recent decades, reflecting a significant shift in societal expectations regarding the role of organizations in the contemporary world. In historical context, concerns about corporate governance practices date back to the early days of modern capitalism, when shareholders sought to ensure that their holdings were managed ethically and responsibly. However, it is only in recent decades that corporate governance has evolved to encompass not only financial aspects, but also social and environmental issues, giving rise to the overarching concept of ESG (COSTA; FEREZIN, 2021).

Growing awareness of the impacts of business activities on the environment and society drove the rise of the corporate social responsibility (CSR) movement in the 1960s and 1970s. Companies began to come under pressure to adopt more sustainable and ethical practices, as society demanded greater transparency and accountability. This movement gradually expanded to include environmental considerations, leading to the development of environmental reporting standards and carbon emission reduction initiatives (LIMA et al., 2024; LIMA et al., 2024).

At the beginning of the 21st century, with the increase in awareness of climate change, the scarcity of natural resources, and growing social inequalities, the focus on ESG issues has gained even more relevance. Investors, consumers, and regulators began to demand that companies not only maximize profits but also make a positive contribution to society and the environment. This has led to a greater recognition that ESG practices are essential to ensure long-term business sustainability and to mitigate financial and reputational risks (IRIGARAY; STOCKER, 2022).

In this context, this literature review seeks to explore the historical development of social, environmental and corporate governance and its impacts on organizations. Through a critical analysis of pre-existing studies, it is intended to comprehensively understand how historical ESG perspectives have influenced the evolution of business practices and how they have translated into tangible changes in organizational strategies. Through this investigation, it seeks not only to elucidate the main concepts and theories related to ESG, but also to identify gaps in knowledge and areas for future research.

DEVELOPMENT

HISTORICAL CONTEXTUALIZATION OF SOCIAL, ENVIRONMENTAL AND CORPORATE GOVERNANCE (ESG)

The historical contextualization of social, environmental, and corporate governance (ESG) goes back to the origins of modern capitalism and the emergence of the first concerns about companies' responsibility to society and the environment. However, it is only in recent decades that this approach has gained prominence and become an integral part of business strategies (IRIGARAY; STOCKER, 2022).

In the late twentieth century, the corporate social responsibility (CSR) movement began to emerge as a response to growing concerns about the impacts of business activities on society. During this period, businesses were urged to consider not only their profits but also their role in promoting social welfare and preserving the environment. CSR initiatives have included voluntary actions to support local communities, promote diversity and inclusion, and implement environmentally sustainable practices (RIBEIRO; LIMA, 2022).

At the beginning of the 21st century, the discussion around ESG governance has gained even more relevance, driven by a number of factors. Awareness of climate change, scarcity of natural resources, and growing social inequalities have led to increased pressure on businesses to adopt more sustainable and ethical practices. In addition, corporate scandals, such as the collapse of Enron and the BP oil spill in the Gulf of Mexico, have highlighted the importance of transparency and accountability in companies (RIBEIRO; LIMA, 2022).

The growing influence of institutional investors has also played a major role in the rise of ESG. Many investors have begun to recognize that ESG factors can have a significant impact on companies' long-term financial performance. As a result, they have come to integrate ESG considerations into their investment decisions, pushing companies to adopt more responsible practices (NAGAI, 2021).

Today, ESG governance is considered an essential component of modern business management. Companies around the world are taking more holistic approaches to governance, considering not only the interests of shareholders but also the impacts of their operations on stakeholders and the environment. As awareness of ESG issues continues to grow, the role of these principles in corporate governance is expected to be further broadened and refined (BELINKY, 2021).

SOCIAL, ENVIRONMENTAL AND CORPORATE GOVERNANCE (ESG) CONCEPTS

Social, environmental, and corporate governance (ESG) is a business management approach that focuses on three main areas: social, environmental, and governance. Each of these pillars describes different aspects of companies' responsibility and performance in relation to not only financial, but also social and environmental issues (RIGON; DEGENHART; RIBEIRO, 2023).

Social governance (S) involves companies' commitment to social responsibility and its impact on the communities in which they operate and society at large. This includes policies and practices related to diversity and inclusion, human rights, fair and safe work, workplace health and safety, employee well-being, community investment, and corporate social responsibility (CSR). Companies that prioritize social governance often adopt corporate social responsibility (CSR) programs to demonstrate their commitment to social welfare (BELINKY, 2021).

Environmental governance (E) focuses on companies' practices in relation to environmental sustainability and the responsible management of natural resources. This includes measures to reduce the environmental impact of the company's operations, such as reducing carbon emissions, conserving water and biodiversity, efficient waste management, sustainable use of natural resources, adopting renewable energy, and complying with environmental regulations (BELINKY, 2021).

Finally, corporate governance (G) refers to the systems and processes used to direct and control companies, ensuring transparency, accountability, equity, and management ethics. These include the composition and independence of the board of directors, the structure of executive compensation, the disclosure of financial and non-financial information, risk management, regulatory compliance, and shareholder participation in corporate decisions (COSTA; FEREZIN, 2021).

Effectively integrating ESG principles into companies' operations and strategies can generate a range of benefits, including increased risk resilience, attracting and retaining talent, improving brand reputation, accessing capital and financial markets, and creating long-term value for all stakeholders. As a result, ESG governance is becoming increasingly important for companies, not only as a matter of ethics and responsibility, but also as a key strategy for sustainable business success (MACHADO; CHECON, 2023).

IMPACTS OF SOCIAL, ENVIRONMENTAL, AND CORPORATE GOVERNANCE (ESG) ON ORGANIZATIONS

One of the most significant impacts of ESG governance on organizations is its potential to positively influence long-term financial performance. Companies that adopt responsible practices regarding social and environmental aspects often become more resilient to financial and operational risks. Investments, for example, in energy efficiency can result in reduced operating costs over time, while diversity and inclusion policies can lead to a more engaged and productive workforce by reducing costs associated with employee turnover and hiring (IRIGARAY; STOCKER, 2022).

Additionally, ESG practices can have a significant impact on brand reputation and market perception of a company. Companies that are perceived as socially and environmentally responsible tend to attract ethical investors and conscious consumers, which can result in a competitive advantage in the market. A company's reputation for corporate social responsibility (CSR) can directly affect customer trust, brand loyalty, and consequently revenues and market share (RIBEIRO; LIMA, 2022).

Another important aspect of ESG governance impacts is risk management. Organizations that incorporate social and environmental considerations into their operations are better positioned to identify and mitigate risks related to issues such as regulatory changes, litigation, reputational damage, and supply chain disruptions. This can result in significant cost savings and increased operational resilience in the face of unforeseen challenges (NAGAI, 2021).

Additionally, adopting ESG practices can contribute to better stakeholder engagement and satisfaction, including employees, customers, investors, suppliers, and local communities. Companies that demonstrate a genuine commitment to social and environmental issues are more likely to attract and retain skilled talent, ensure customer loyalty, and secure local community support for their operations (NAGAI, 2021).

Thus, it can be seen that the impacts of ESG governance on organizations are diverse and wide-ranging, affecting everything from financial performance to brand reputation and stakeholder engagement. By taking a holistic approach to business management that considers not only the bottom line but also the social and environmental impacts of its operations, organizations can gain a sustainable competitive advantage and contribute to a more sustainable and inclusive future.

FINAL THOUGHTS

Social, environmental, and corporate governance (ESG) represents a crucial paradigm in contemporary business management, reflecting a significant shift in societal expectations regarding the role of organizations in the modern world. Throughout this literature review, we explore the historical development of ESG governance and its impacts on organizations, from the origins of the corporate social responsibility movement to its evolution to encompass environmental and governance issues.

It has become evident that ESG governance profoundly influences financial performance, brand reputation, risk management, and stakeholder engagement in organizations. Companies that adopt responsible practices regarding social, environmental, and governance aspects tend to be more resilient to financial and operational risks, attracting ethical investors and conscious consumers and improving their reputation in the market. Additionally, the effective integration of ESG principles can lead to more efficient risk management and increased stakeholder engagement and satisfaction.

Given this, it is critical for organizations to recognize the importance of ESG governance and incorporate these principles into their operations and business strategies. Implementing responsible practices not only benefits the organizations themselves, but also contributes to the sustainable development of society and the preservation of the environment.

However, it is important to note that there are still challenges to overcome, such as the lack of standardization and transparency in the disclosure of ESG information, as well as the need for more robust metrics to assess the ESG performance of companies. Therefore, it is crucial for companies, investors, regulators, and other stakeholders to work together to foster a stronger and more comprehensive ESG governance culture.

In short, ESG governance is an essential part of modern business management and plays a key role in creating long-term value for organizations and society as a whole. By recognizing and embracing ESG principles, companies can not only ensure their own sustainability and success but also contribute to a more just, equitable, and sustainable world.

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