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Capstone:

ESG the system that's with a shaky ground

Introduction:

Within today's dynamic corporate landscape, various companies in pursuit of sustainability as their cornerstones chase various ethical standards as their bases. And that mainly being spurred into action because of concerns from the larger public and their investors about their general image in terms of being sustainable and environmentally friendly. With this following article, the main point and subject is around the current day companies and their still ongoing actions and initiatives of their sustainability-based morals and ethics. But with every structure on these bases, the vagueness of their ideas and their morality of themselves sooner or later would create issues in larger markets. So, the specific concept that is the focal point of this discussion must be addressed and explained, which is the Environmental Social Governance (ESG) system. This system, although comparably a new phenomenon, was accepted by the world's various companies as a way to self-evaluate their sustainability with either internal or external resources. ESG is not technically the first system of this kind. Before, it was preceded by the Corporate Social Responsibility (CSR) system, which was founded in the 90s by the biggest 250 companies for similar purposes. At the same time, ESG is a more modern successor of CSR, as my interviews later confirmed, that was created in 2008 with the help of the top 100 companies and the UN. ESG and, before it, CSR are

systems of grading and auditing the companies in the open market based on various moral criteria for the interest of the companies themselves, investors, and the ordinary people. Although the functions and history are more understandable, the three criteria of ESG must also be defined in some essential way to be more understandable:

1. Environmental refers to the category of activities done by a corporation to protect the environment, lower carbon emissions, reduce waste, and other such activities.
2. Social refers to categories of activities a corporation does to provide fair wages, help marginalized social groups, create ethical supply chains, and other such activities.
3. Governance refers to categories of activities a corporation engages in to embrace diversity in its structures, allow corporate transparency, staggers board elections, and other actions of that nature.

After seeing these basic definitions and understanding the premise behind this system, the central premise that revolves around this system must be disclosed. In recent years, much discussion has been about this system's truthfulness, reliability, and consistency. Specifically, the larger public, like with CSR in the past, took note of the changes in the open market based on strange Diversity Equity Inclusion(DEI)¹ practices connected to ESG and larger modern sustainability systems. Thus, after a few big company affairs, chunks from the larger western public noted ESG and, with further digging into it and findings in its bases, criticism started to pour. So, within this paper, the primary debate revolves around the questions of consistency of grading, the reliability of its impact, and whether it is being viewed as trustworthy from a corporate and public standpoint. So, to do that, we must first view the available data in the form of personal

¹ Diversity Equity Inclusion (DEI)- Subset of sustainability values connected to ESG but mainly bothered with the issues of the three values of diversity, equity, and inclusion in regard to environments.

interviews with professionals in the field, scholarly research of articles and studies on this topic, data gathering of the auditing and news reports gathering on the topic from various sources to see its impact as some needed guardrails so that we could establish the scope around our research question.

Research question:

In the case of this paper, the research questions around which all of the main work would be established are straightforward and are few that need to be reviewed because of the topic's expansiveness and scope. As said before, ESG as a system is a fascinating case of information communication. Within this paragraph, the main questions that should be the core of this work are the following:

1. What are the system's effects on companies regarding data consistency and impact?
2. Should there be trust put in what the grader of ESG provides?
3. Is there consistency in the gradings between various graders?
4. What ESG companies give access to the larger public?
5. What is not present?

These are the main questions this work will address, and we see how they hold up because even with these two simple ideas coming from each question, a considerable amount of data can be brought and studied to answer them. With so much ambition coming from these questions, one must start gathering information from scholarly researches, news reports, personal interviews and raw data type of information. There is no solid base for conclusions without seeing all kinds of information.

Methods:

In terms of methods, this work would be done by doing a few things to answer these questions. First, scholarly research into its history must be done to expand and give a clear idea of its background and also the already existing studies of these system's effects on the larger open market. After these more straightforward actions, we need to find several graders of ESG and several companies that they all grade. For that, some basic criteria for their choices must be explained.

Graders must be organizations that are:

- publicly available to use
- with various and similar scales
- should have shared pool of companies
- be known in the industry

Companies Must be organizations that are:

- at least present in the pool of companies graded by graders
- be known to the public
- be from one of the four categories of Entertainment, IT, Electronics manufacturing, and Car manufacturing

From there, we can chart graphs and the table to see the answers to consistency questions. Further, we would also look at the graders themselves and compare and contrast them to see what they provide and do not provide in terms of data to the public. The comparisons of functions and

available data would be done through specific criteria. The bases of these criteria are rooted in the seven principles of disclosure that need to be explained and have been suggested for mention in one of the personal interviews. Lastly, there would need to be a further look into reporting on this topic by various parties worldwide to answer questions regarding trust put into ESG. To cap this off, two personally interviewed professionals Mariana Javakhyan and Armen Stepanyan, would be decimated to clarify to this larger conversation further down the line. This, of course, would lead this text to a conclusion that could be derived from all of this information.

Body 1: Literature review information

The Corporate Social Responsibility (CSR) and the Environmental, Social, and Governance (ESG) scores have been mainstays in the modern economies of various countries for quite some time. After years of their implementation and usage by multiple corporations, investors, industries, and hedge funds in different countries and states, the possibility of these system's inaccuracies and, more specifically, the possibility of them being ineffective in terms of their intended function. So, after such queries started to pop up about their viability, more specifically their effectiveness, and the unintended harm possibly caused by these systems also became a concern to be researched and questioned. With this review of the already available information, the main goal would be understanding the shared history of CSR and ESG through which the more extensive contextualization of their possible ineffectiveness, unintended harm, and inconsistencies would be represented.

Therefore, to begin this long journey of understanding, the most important thing is to understand these concepts' essential relationship, emergence, and meaning. For that, a good study

by Catherine M. Allred expresses all those things about CSR and ESG. In terms of characterizations, this is what they convey the following:

"CSR represents a company's efforts to have an overall beneficial impact on all of its stakeholders including: employees and suppliers, consumers, the environment, and the greater society. ESG, on the other hand, aims to quantify these activities in order to provide a more precise assessment of the impact of a company's operations." (Allred,2020).

Now, it is understandable that these concepts were meant to be positive forces that shaped the companies for public and private good and are essentially used to score them obviously for investors. Therefore, the next step is understanding their relationship and emergency, which can be much easier. First, it must be admitted that of the two systems, the ESG system was considerably new at the time of the study creation, with only a few companies still counting it, which the study confirmed to cause some inaccuracies in scoring at this time Allred admits(Allred,2020). Specifically, it gained momentum in 2004 when the UN Global Compact and 50 CEOs of major financial institutions collaborated on a joint project (Allred,2020). In comparison, CSR was first created in 1997 when the Global Reporting Initiative (GRI) and Sustainability Reporting Standards (GRI Standards) were established, after which, up until now, 93% of the 250 largest corporations started to report sustainability performance annually (Allred,2020). Now that all of this is laid out, it can be seen that CSR is a predecessor of ESG that was set to be an internal set of standards for the internal improvement of companies and was established for a sort of self-regulation, which one of the personal interviews confirmed. At the same time, ESG is a new system intended to score the company's overall, and it was created with the collaboration of the UN and several prominent company leaders. Although the connection is somewhat expected in the end, they are both meant to be systems that regulate corporations regarding their actions and internal working ethics. Thus,

they are being used to show investors if a company is in green in terms of those things so further investment can be funneled into them for being ethically sound.

As this is settled, the next thing to be seen is how these systems can be ineffective at their task. As seen in the past paragraph, it is clearly stated that because of ESG's new and fresh emergence, the system has not yet become accurate at scoring companies. But again, even that information is not concrete because more recent articles present the opposite viewpoint, like the one from Harvard Business Review, who said, "The amount of analytical rigor that goes into ESG ratings has increased substantially, and that's a good thing. These ratings are more relevant and more high-profile than ever before, and investors are paying closer attention." (MacMahon, 2021). Besides the obvious point that the article shows with the set quote, it also brings up the fact that ESG contributes to the profits of the firms. Thus, the only other way to see if these scores contribute to informing investors about better companies is by looking at the firm's value (worth) contributed by the scores. And in terms of even relation with the firm's value, the connection is still sketchy. In one study, the following outcome is concluded upon researching ESG "we find that ESG combined score (ESG_CS) has a positive and highly significant relationship with the firm value. Social (SOC) and Governance (GOV) have highly significant positive relationships with firm value as well. However, Environment (ENV) has no relationship with firm value." (Aydoğmuş et al., 2022). This is perplexing because the score technically should create positive value in all three categories however, only two are fulfilled. Even then, when looking at other studies, far worse outcomes can be found when reviewing a study based on the European Union's (EU) ESG data "Additional environmental, social and governance screens within this rated universe only provide further significant performance gains in the case of the governance selection. Environmental and social selection does not generate any significant additional value." (Auer,2016). Thus, this shows

a bleaker case of the scoring not being able to convey two of the three needed categories about a company to the investors to add value to the company. From this, it could be extrapolated that in the best case, one, and in the worst case, two out of three categories don't give investors much information or help improve companies' value. But even when looking at all of this, there are far worse implications with older attempts to convey such complex data through metrics. When looking at CSR research in China, this comes forth " Both positive and negative relationships have been found in previous studies. We expand upon this research by focusing on nonlinear effects and using data from China, the largest developing country in the world. Sun et al. identify an inverted U-shaped relationship between engagement in CSR activities and firm value by using American corporate data. "(Wu et al., 2023). This shows that CSR score can relate to firm value by increasing or decreasing it over time when used. That makes it unclear what type of impact it will have overall. As much as the ESG itself is hard to discern if their scoring is inaccurate, there have been examples under the CSR system where scoring was created to showcase Corporate Environmental Reporting. This is what researchers found in a past study reviewing such a scoring system:

"Krut and Munis produced the only scoring system that did obey the axioms but they did not utilise the full methods available to summarise the data. Even if the scoring systems above did assume that the calculations of addition could be meaningfully applied, there is no justification that all the criteria are scored on the same scale. ... The analysis of the seven scoring systems identified above has highlighted the statistical inaccuracies being applied to them resulting in the creation of skewed or misleading results. "(JONES & ALABASTER, 1999).

Again, after seeing such blatant issues shown in cases of CSR and ESG having problems being inaccurate or miscommunicating their data, further possibilities must be assessed. Thus, companies

and investors can cause unintentional harm to companies, the larger public, and investors by following such flawed data representation. This possibility should also be considered next when talking about this subject.

So, the harm that ESG can create is yet to be fully quantified, but there are already some clear signs of it. An article by Investment Monitor outlined a few of those. One of them is a narrowing of the viable businesses by the investors, which causes them to have less diversified investments because of high-scoring ESG pursuits. Outside of that, the article raises even more concerns by stating, "Some investors fear that ESG investments generate smaller returns than those that focus less on such issues. As a result, some investors worry that they are compromising on returns in favour of a better ESG performance." (Karadima, 2022). The article further illustrates this by stating that in recent times, because of ESG, many companies have chosen to use and have been accused of using greenwashing tactics to try to attract more investors, which in some cases backfired and gave them a bad reputation (Karadima, 2022). However, the article also states that the disadvantages seem more short-term, and the advantages could technically outweigh them (Karadima, 2022). And besides this, there is, of course, CSR, which also has many indicators showcasing how it affects companies. On the more negative side of things, Barnett suggests that it seems CSR activities more or less do not affect companies in terms of maximizing profits, and only some CSR activities give any profit, which for Barnett are viewed as fiduciary responsibilities that managers could just fulfill (Barnett, 2007). This almost depicts these activities as time wasters. However, other studies suggest the opposite is also possible. More specifically, one article concludes the opposite:

"This article investigates the effects of CSR and corporate reputation on industrial brand equity and brand performance. The empirical results support our hypotheses and indicate

that CSR and corporate reputation have positive effects on industrial brand equity and brand performance. Corporate reputation and industrial brand equity also have partial mediating effects on the relationship between CSR and brand performance." (Lai & Chiu & Yang & Pai, 2010).

Again, this showcases that the whole subject is a bit more complicated to discuss. All of this makes it more unclear if the problems or harm it could cause are very specific because of various contradicting conclusions and viewpoints on the possible harms ESG and CSR can have on its subjects. However, with further information, there is also a creeping possibility of at least concerns about CSR being possible. This mainly comes from statements from writers like Khosro S. Jahdi and Gaye Acikdilli, who, in their work, came to multiple conclusions, one of which was:

"The proliferation of ethical and green claims by companies, some of which appear in the so-called 'sin industries' category, has contributed to growing consumer scepticism of such CSR communications and green-washing. This is a prime example of what can only be termed as a 'shotgun wedding' between marketing communications and CSR." (Jahdi & Acikdilli, 2009).

Thus, further shade is shed on the predecessor of the ESG system. Now that further concerns have been growing, it is evident that there may be more to the concerns. And maybe even the skepticism is valid toward at least CSR. So, if CSR had such flaws addressed, it should also be known that ESG should have its own problems that get pinned at it. One must look further and search for further data to see if there are cracks in ESG's consistency.

Body 2: Graphs, Consistency and Graders.

In this section, the conversation will mainly revolve around the data gathered from the ESG graders and the companies they graded. The first step is to look at a general table of grounds where this data is shown and extrapolate a few graphs. With this help, further minor inconsistencies could be showcased. After this, the other important thing should be going through each grader and accessed based on a few factors. The set factors themselves are based on the further explained seven principles of disclosure that are an essential base for ESG system reliability and would be used to denote and clarify the lack of the factors previously mentioned to showcase how the graders don't do their best. Thus, to embark on this road, one must start simply with view of the relevant raw data to see any inconsistencies.

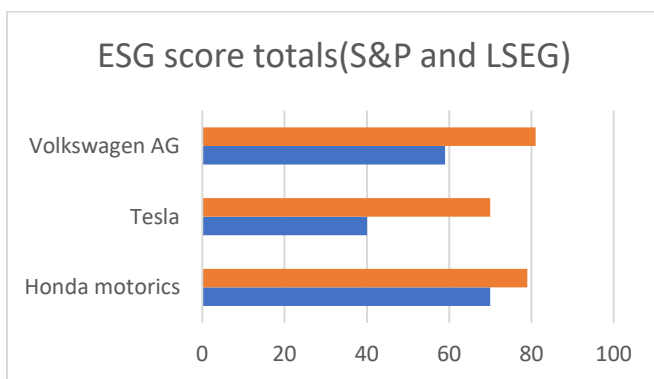
Table 1

companies/grading	Financil/ahoo	MSCI	IBD	Sustainalytics	ISS ESG	S&P Global	Iseq.							
Scoring type	score-e/s/g	CCC-BBB+/N/100		0-10 10-20 20-30 30-40 40+	D-to A+	score-e/s/g/n/100	score-e/s/g/n/100							
Company cluster 1														
Warner Bros. Discovery/NA		BBB	NA		199 D+	29	17	28	36	60	33	75	49	
The Walt Disney Compar	15.7	0	9	6.7 A	NA	15.7 C	45	51	42	47	69	54	84	52
Netflix	16.4	0.1	7.3	9 BB	NA	16.3 C-	18	35	7	25	40	37	55	29
Company cluster 2														
Nvidia	13.6	2.3	4.9	6.3 AAA	69.4	13.5 C+	60	58	61	61	76	67	74	88
Apple Inc	17.2	0.5	7.4	9.4 BBB	NA	16.7 B	52	66	48	44	80	66	70	93
Dell Technologies	16.7	0.7	8.4	7.5 A	67.07	16.4 B	44	54	35	42	54	59	56	45
Company cluster 3														
Alphabet	24.2	1.6	11.2	11.5 BBB	64.04	24.1 C+	47	59	48	41	54	59	56	45
Microsoft	15.1	1.5	7.5	6.1 AA	72.76	24.1 B-	55	74	43	55	88	79	87	92
Adobe	13.1	1.9	6	5.2 AAA	66.75	14.9 B-	59	74	49	59	70	76	76	62
Company cluster 4														
Honda motorics	28.7	7.1	13.6	8 AA	NA	28.7 C	70	73	69	68	79	89	79	63
Tesla	25.2	3.3	14.1	7.8 A	NA	25.3 C+	40	53	29	40	70	73	75	56
Volkswagen AG	26	5.7	9.1	11.2 B	NA	26.4 C+	59	54	60	61	81	92	91	50

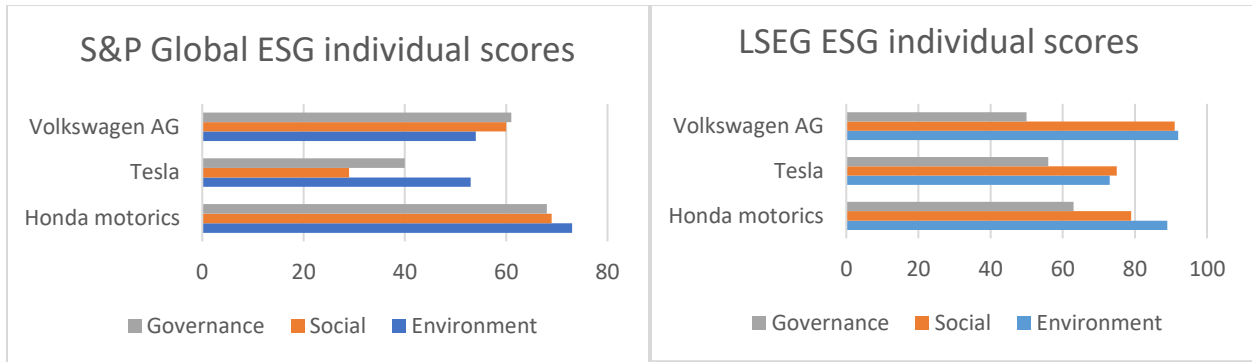
Tables and graphs:

In comparison to the previous paragraphs, research-driven assessments within this one are needed to see the consistency of the system of ESG and how it is developed through the lens of the gathered data shown above in the table 1. Here are shown 12 different companies set in 4 clusters of 3 in front of which we see the ESG scores given to them by several aggregators and graders of ESG. In some cases, the grades are one overall number, and in some, letter grades. In some, a company's overall and individual monthly ESG scores are barely shown. However, from the 1st glance, it can be seen that it is hard to compare all seven grader/aggregator sites because of the differences in systems. Another problem that can be easily discerned is the strange anomalous differences in grades seen between graders/aggregators that do work off similar scoring systems. An excellent example of that can be seen in the table 1 and graph 1 of cluster number 4, where the three car companies are compared in their S&P global and LSEG grades of ESG. In Graph 1, the information shown is the total scores, and in Graphs 2 and 3, individual aspects of the ESG scores of the companies are shown.

Graph 1



Graph 2 and Graph 3



When looking at the total scores shown in Graph 1, it can be easily deduced that the total scores of Volkswagen and Tesla show noticeable differences between the two grading companies. At the same time, Honda has its total score similar, but when looking at the individual aspects scoring in, there are still gaps and notable differences between the two graders. However, again, when comparing the even more significant inconsistencies of the other companies, it is noticeably more aligned than the others, which have even more significant gaps between their individual aspects. For example, Tesla's Social score in graphs 2 and 3 shows a gap between S&P Global's 29 and LSEG's 75. At the same time, for example, smaller discreteness exists between Honda Motorics's Social scores. While Volkswagen also has a difference between 91 of LSEG and 61 of S&P Global, which is still a notable gap in graphs 2 and 3. Other such gaps showcasing inconsistencies between graders can further be seen within the larger Table 1. Further information provided in the following paragraphs also shows how table 1 could have rationalization about how these sorts of differences can be explained by professional's comments on how these data inconsistencies in the system of ESG grading can exist expectedly. Lastly, before moving on, let's look at each ESG grader and the companies from which the scores were taken with some criteria-based showcase.

Companies and their disclosure:

Specifically, this section's primary purpose is to look at the various companies used in the graphs and the tables in the previous section and have a look at a more criteria-based differences showcase of the graders. The well-known companies do not need an introduction because they are prominent. The companies are Warner Bros. Discovery Inc., The Walt Disney Company, Netflix, Nvidia, Apple Inc., Dell Technologies, Alphabet, Microsoft, Adobe, Honda Motorics, Tesla, and Volkswagen AG.

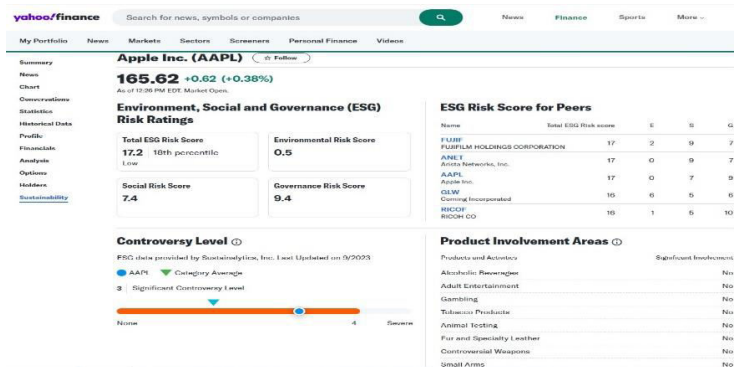
But before the work shift to describing each grader, another thing should be brought up to be checked. And that is the transparency of various factors of these grading organizations. And to do that, there would be definitions of several aspects that they should have in their arsenals so that we could check their transparency. Those being:

- ESG total grade
- Individual Environment, Social and Governance Aspect's grades
- Further division and specification of individual grades
- Comparison to other companies in the industry
- Long-term grades timeline
- Additional resources
- Link to their calculation methods

Now let's move onto the graders. Graders, on the other hand, are the following ones:

[Yahoo financial](#): It is part of the Yahoo company/website that mainly deals with financial information display but also contains information on ESG scores in their sustainability tab.

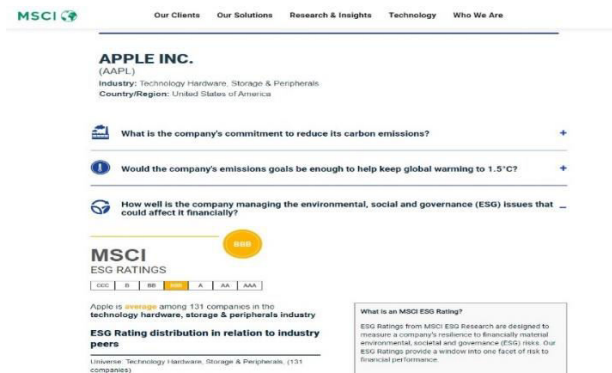
- ESG total grade – Present.
- Individual Environment, Social, and Governance Aspect's grades – Present.
- Further division and specification of individual grades – Not existent.
- Comparison to other companies in the industry – Shows a few companies with their scores but doesn't show direct comparisons and only has the scores next to each other.
- Long-term grades timeline - Not existent
- Additional resources - Controversy level and Product Involvement Areas table
- Link to their calculation methods – No direct link. This is just a notation saying they take updates from Sustainalytics.



MCSI: One of several ESG graders and one with several tabs and tables next to the scores showing the time period they scored it, what aspects they scored, and general additional info through the links. Grading in a letter grade system is limited to a few months.

- ESG total grade – Present.
- Individual Environment, Social, and Governance Aspect's grades - Not existent
- Further division and specification of individual grades - Not existent.
- Comparison to other companies in the industry - Not existent.

- Long-term grades timeline – Present and only shows an additional few months.
- Additional resources – Carbon emission tab, history of carbon emissions graph. UN goals tab, a graph representing the scoring system, a key issues distribution graph, a controversy indicator tab, a business involvement screen, short explanations for all these categories, and an extra information section with several topics to check, like "What is ESG?" .
- Link to their calculation methods - Yes, present and show what the score means. But to see how calculations are done, you need to permit it by giving personal information like workplace, name, surname, etc.



[Investor's Business Daily \(IBD\)](#): A site for overall investment news and information tracking. But they also have a personal top 100 list of companies they list at that they host for every year's top 100 ESG companies.

- ESG total grade – Present.
- Individual Environment, Social, and Governance Aspect's grades – Not existent.
- Further division and specification of individual grades – Technically not existent but showcases Comp Rtg, RS Rtg, EPS Rtg, SMR Rtg, 3-yr EPS growth rate, ROE, Last qtr sales % change, Last qtr EPS % change, Div yield scores.

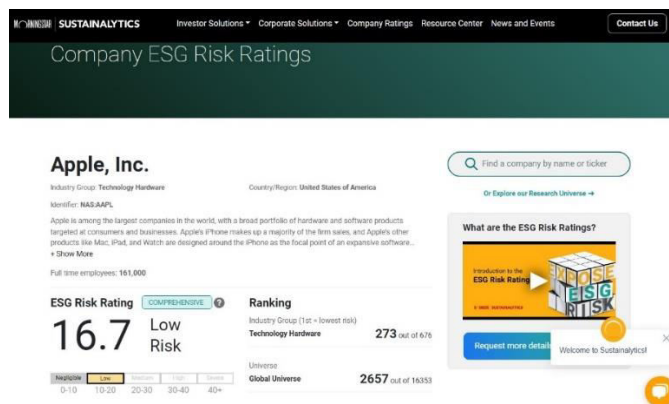
- Comparison to other companies in the industry – Technically present because of its table and article format.
- Long-term grades timeline – Not existent but because it is a yearly report there could be older versions to find and see.
- Additional resources – text explaining the top 100 information in the list and some hyperlinks.
- Link to their calculation methods - Not existent at all and doesn't showcase anything of that nature.



Sustainalytics: The company also tracks investment data in sustainability issues but has its own ESG score graded in a numeral system with five ranks. It mainly allows one to see only the grade and a few additional snippets of information but also blocks most of the details under the paywall. Also, it is the site from which Financial Yahoo takes their information, but with delay.

- ESG total grade - Present
- Individual Environment, Social, and Governance Aspect's grades – Not existent
- Further division and specification of individual grades – Not existent

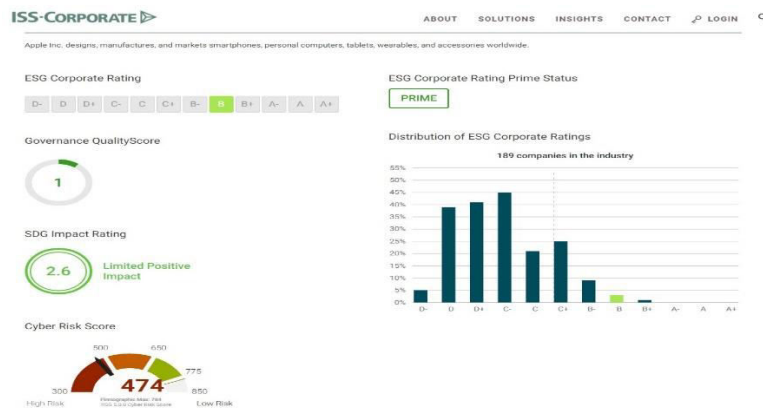
- Comparison to other companies in the industry – present but doesn't show next to each other for direct comparison, and has comparison tools separately.
- Long-term grades timeline – not there
- Additional resources – writes or links to various things like approach to ESG, management and exposure statistics, contact button, controversy rating, and how to learn about ESG changing line at the bottom. However, several functions are closed behind, giving private information and a paywall subscription.
- Link to their calculation methods – technically not existent behind giving private information and a paywall subscription.



[ISS-Corporate](#): Another company that mainly deals with sustainability issues. Grading mainly with letter grades and has few additional data points with their ESG scorings of companies.

- ESG total grade - Present.
- Individual Environment, Social, and Governance Aspect's grades – Only Governance quality score.
- Further division and specification of individual grades – Not existent, but there is ESG, Corporate Rating Prime Status, SDG Impact rating, and Cyber security rating.

- Comparison to other companies in the industry – Not existent, and only Distribution of the ESG corporate rating graph is shown.
- Long-term grades timeline - Not existent.
- Additional resources – Related to ESG methodologies table of contents explaining terms and ideas, contact button, and a complete picture in ESG disclosure & performance text with an explore button
- Link to their calculation methods – Not existent.

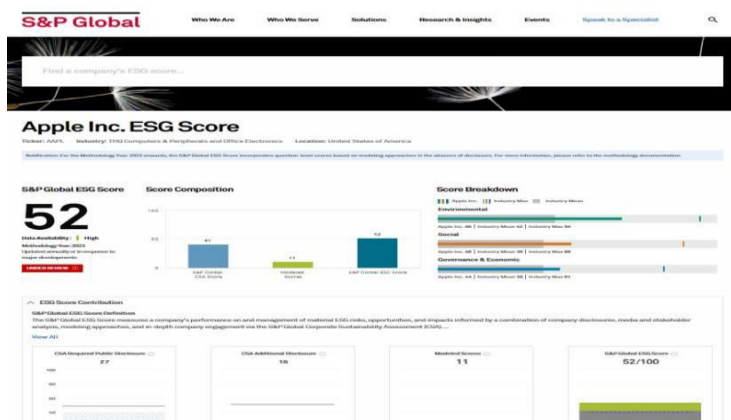


[S&P Global](#): A public trade corporation with an area of business that includes financial information and analytics data in the investment world. However, it's also yet another company producing its own ESG scores of companies it reports on and also has a detailed representation of the ESG scores it gives in a numerical system.

- ESG total grade – Present
- Individual Environment, Social and Governance Aspect's grades - Present
- Further division and specification of individual grades – Not existent.
- Comparison to other companies in the industry – Technically, there. Various industry comparison graphs and tables and explanations of industry averages and showcases and

other ESG score contribution graphs where there are comparisons to industry averages but no direct comparisons

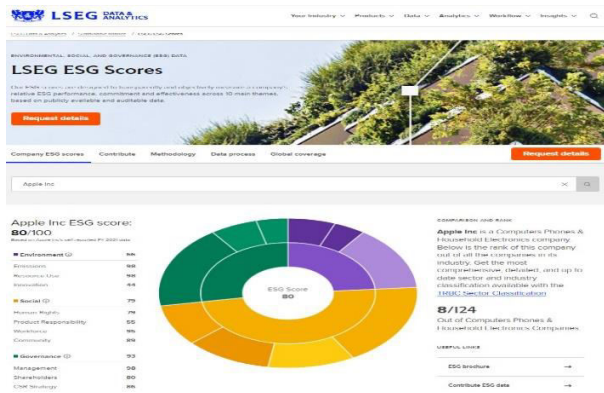
- Long-term grades timeline – Not existent.
- Additional resources – Present via multiple links and text blurbs.
- Link to their calculation methods – Information about methodology with link but for not calculation methods.



[LSEG data and analytics](#): A UK-based company provides stock exchange and financial data analytics. It is also yet another grader that shows ESG scores of various corporations, with each aspect being very detailed. Also, it provides links to their methodology for ESG and their contributions to ESG data.

- ESG total grade – Present.
- Individual Environment, Social and Governance Aspect's grades – Present.
- Further division and specification of individual grades – Present as further subdivisions of the aspects.
- Comparison to other companies in the industry – Not existent.
- Long-term grades timeline – Not existent.

- Additional resources – Present as score range, terms of use, contribution options, closer framework look, etc.
- Link to their calculation methods – Present in several places as methodology and in a big separate pdf file are shown the methodologies and calculations in debt.



From all of this data, it could be said that the companies that grade can have varying levels of openness, data showcase, and sophistication. Not every one of them is clear-cut or straightforward. Some don't even showcase certain apparent features to showcase long-term data changes or even help with comparing data. But overall, there seems to also be a lack of calculation methods being showcased or trying to vaguely say a general methodology rather than a straightforward presentation of formulas or data. And even after all of this, some don't even show ESG aspects individually or even the various individual specifications of each element. This further even showcases a certain level of not showing the whole picture. Not to mention, some of them do not allow some data to be displayed publicly, have features locked behind paywalls, or ask the user to give personal and corporate information data to access other things. This, not individually but in conjunction with everything else, shows that there is definitely a long way to go for all of this to be more clearly showcased or presented for general public use. However, they all seem to be geared primarily for use by corporate entities or

investors, for whose ease of access these grading organizations were built for it appears to be. Which casts a barrier of entry for people to approach or get any of the data they want if they are part of the larger public. Thus, from this understanding, it could be discerned that the criteria set for these comparisons must exist at a more industry-level level. Surprisingly, these will exist and will be viewed next.

Seven principles of disclosure:

So, to contextualize the previously written paragraphs, one thing also must be established. Those are the Seven Principles of Disclosure: a system brought up later by one of the interviews that became the foundation of the previous few sections. Graders should follow criteria for auditing and grading to achieve higher work standards. So, to make it clear why the previously mentioned graphs and graders criteria were made for this paper's research, one must also understand these principles:

Principle 1: Relevant

Disclosures should focus on data that doesn't obfuscate reality and should be specific with the potential impact that the data informs. (Jackman, 2023)

Principle 2: Complete

Disclosure must be relevant but also specific and comprehensive in providing information. (Jackman, 2023)

Principle 3: Clarity

Disclosure must be clear and understandable to avoid bloating language and be as clear as possible. (Jackman, 2023)

Principle 4: Consistent

Despite the ever-changing nature of the information, it should have a level of consistent structure to provide understanding of it. (Jackman, 2023)

Principle 5: Comparable

A more complex principle requiring the ability to compare and contrast disclosed information of similar organizations based on strategy, business activities, risks, and performance. (Jackman, 2023)

Principle 6: Verifiable

Reported information must be reliable, verifiable, and set on the basis of objective data. (Jackman, 2023)

Principle 7: Timely

Information should be provided on a timely basis, at least annually, to ensure usefulness. (Jackman, 2023)

Thus, by understanding these and seeing their echoes in the previous paragraphs, it is clear that there are some conflicts or noncompliance with these principles. When looking at the consistency, comparability, and timeliness of data, there needs to be more consistent application of them mainly because most sites of the graders don't follow them or do lip services. With verifiability, even fewer graders follow it or show data or principles they use behind the grades. Relevance, clarity, and completeness seem to be the, at best, half-decently done ones by most of the graders. This makes this whole problem with them even more embarrassing to accumulate and go through. Thus, it casts doubt on whether these principles are recognized or even followed by any high standards. Such are these sorts of inconsistencies that when it comes to even viewing or questioning why data or standards are inconsistent, one must lose trust in them. This is the exact thing that, on some level, has been reported and showcased in further provided articles showcasing inconsistent trust and belief in ESG systems.

Body 3: Media reported information

An interesting factor that also needs to be accounted for in discussing the situation with ESG is the media response and how ESG has been seen and reported to gauge if the companies lie or don't show that they want to admit the truth about its effects. So, to do that, it is crucial to look at the latest developments regarding ESG and its implementations. There can't be further judgments about it without seeing the reaction to this system from the larger world and from various sources. To do that, one must look at a few of the stories that revolved around that have been showing about ESG.

Japan/USA/UK coverage:

One of the more contradictory stories of ESG is its current implementation and use in the Japanese economy. This system of sustainability last year had a public endorsement by the current president of Kishida, who reportedly said the following in an article by Takashi Umekawa in BNN Bloomberg:

““The initiative enables asset managers and owners to engage in dialogues with companies and promote growth and sustainability outcomes,” he said, adding he expected more to join in future. Japan’s Government Pension Investment Fund, the world’s largest retirement fund with 219 trillion yen in assets, is already a member. ” (Umekawa, 2023).

The article seems to be a piece of news reported late last year and was, in a way, stated to be a sort of endorsement of the sustainability and ESG practices in the Japanese economy. Specifically, with a headline like "Kishida Says Japan Pensions With \$600 Billion Sign ESG Pact" it is evident that this reflects the view of the government's trust in it. However, a different picture is shown when looking at more recent news about how Japanese companies and investors see it. In a work by Satoshi Shizume from again BNN Bloomberg, a more recent commentary and explanation of the ESG acceptance by the market is shown:

“Investors pulled a total of 660 billion yen (\$4.5 billion) from funds last year, according to the research firm Morningstar. That’s more than four times the outflows of 150 billion yen in 2022. The shift is due to investors favoring mutual funds focused on specific investment themes rather than sustainability goals related to ESG funds. In 2021, ESG funds boomed in Japan with total inflows of 1.8 trillion yen. Now investors are more interested in areas such as foreign index funds .“Rather than being a response to investor

demand for sustainable investments, ESG was seen as a theme,” said Daisuke Motori, director of manager research at Morningstar Japan.” (Shizume, 2024).

In this case, it seems, at the very least, that for the show reasoning, ESG is seen as useless in comparison to foreign index funds. On top of that, the investors seem to want to see ESG as a general theme or a sort of window dressing, if that's what is meant to be communicated here. Besides that, it's evident that 4.5 billion dollars are getting pulled out of the ESG investment, and there is a definite loss of interest or belief in the system in 2024's start, as this article was written. So, it shows that the initial thoughts on the ESG system wavered in the eyes of the Japanese investors, which further brings to mind the idea that the system may not be reliable.

On the other side of the earth, a similar pullout of money happened in the USA earlier this year. In a March article by Isla Binnie in the magazine Reuters, one of many reports of ESG divestments of 8.5 billion dollars from BlackRock², one of the many hedge funds that use and invest in ESG by the state of Texas (Binnie, 2024). Specifically, the article stated the following about the initial situation of BlackRock urging to reconsider this action: "It was the latest broadside in a tussle between Republican state and federal officials and Wall Street firms over using environmental, social and governance (ESG) factors in investing"(Binnie, 2024). This urging of reconsideration seems to have resulted in nothing much. Later this year, in April, in an article by Slay writer Frank Bergman, further information came out regarding BlackRock's reaction to this pull. Specifically on the matter of this situation, the article reported the following:

² BlackRock - It is one of the biggest hedge fund companies on earth and manages many investor's assets. It is also one of the various organizations that support and encouraged/encourage ESG systems use within sustainability investment circles.

“BlackRock CEO Larry Fink suffered a meltdown during an earnings call over the company losing billions of dollars in contracts due to the international asset manager’s woke “environmental, social, and governance” (ESG) agenda. A recording from the call has emerged online and revealed Fink imploded while raging over the Texas Board of Education canceling \$8.5 billion in contracts with BlackRock.” (Bergman, 2024).

This further poses the question of whether even states like Texas or even the CEO of BlackRock have these sorts of drastic comments and reactions to this situation and if it means that the system of ESG is unreliable. If the State of Texas's action to cut the funding is to go by, it seems that, at the very least, in places like Texas, the distrust in ESG is high. And the further distraught reaction of the CEO of BlackRock means that even on the investment side of hedge funds, there is also some level of worry that people around them trust ESG less. This further nails to the ground the fact that ESG seems to be losing some level of favorability, which causes even the pristine institution's heads to be unsure of their actions.

From another angle of the British financial sector, an even worse situation just exists surrounding ESG and BlackRock as a company invested in ESG. In a news piece by the Guardian’s Phillip Inman in May 2023, some disturbing reports came out surrounding this topic that indeed is a big hit on the subject of ESG. Specifically, within the article titled “Green investment funds pushing money into fossil fuel firms, research finds” the following information was revealed:

“The research by the Common Wealth thinktank showed that the US fund managers BlackRock and State Street and the UK-based Legal & General were among asset managers to use funds with an “environment, social and governance” (ESG) label to invest in fossil fuel firms. The leftwing thinktank said that despite claims that ESG funds offer a

green and socially responsible option for investors, “the research shows these funds are significantly exposed to fossil fuel companies”. Between February and April this year, BlackRock, State Street and Legal & General alone were found to hold \$1bn (£800m) in bonds issued by fossil fuel companies in their ESG funds.” (Inman, 2023).

This is another shocking revelation where it showcases how ESG, through either sheer incompetence or even malice, helped fund companies that aren't precisely fulfilling the environmental ESG aspect's fundamental goals. And it is even further absurd that over 1 billion dollars, or more precisely 800 million pounds have been used to fund such activities. And thanks to thinktanks like Common Wealth such obvious misuses of ESG that further show that the system of ESG is eroding its trustworthiness is becoming more apparent. Thus, when looking at the catastrophic actions that BlackRock did through ESG, one would seriously start to question the absurdity of this situation and the possibility of it in the first place. In the overall picture, this is just one of the few possible and accurate angles this system has been viewed at to complete it. So, to have a much more complete view of this topic, one must also have an understanding of the general coverage of this topic. Thus helping to facilitate a broader view of the situation around ESG and the thoughts around it.

General Coverage news:

Outside of these events, it seems that there have been worries about the ESG system from other places during the past few years, too. Specifically, in these two articles by Forbs and Harvard Business Review from 2022, there have already been some initial worries about the system's current condition. In the Harvard Business Review, the article specifically concluded this about the topic of ESG: "The conclusion to be drawn from this evidence seems pretty clear: funds

investing in companies that publicly embrace ESG sacrifice financial returns without gaining much, if anything, in terms of actually furthering ESG interests." (Bhagat, 2022). This shows that investment in it seems to have yielded little to nothing for the people interested in ESG or given them in terms of supposed interests that ESG should have provided. Thus furthering the already ongoing motive of ESG not being reliable and even untrustworthy as a system. And the fact that it is being reported soon even shows that these previously mentioned pullouts of money were expectable, most probably. In the Forbs article by Peter Krull, the sustainability of it is brought into question in regards to a few organizations that are discussed but in a more nuanced way:

“ESG metrics are important, but you cannot passively rely on them to create a positive end result portfolio. To do so, you must ask the question, “Is this company sustainable and does it belong in this portfolio?” Secondly, a good, active manager will also ask, “what kinds of companies do we *want* to own and which ones will be leading us into a new, cleaner, and more sustainable economy?” I would posit that the list of companies in the Blackrock ETF above would not pass either of these questions.” (Krull, 2022).

This, of course, poses that the ESG system can be sustainable in a way. Still, without some fundamental factors being questioned, a portfolio driven by ESG cannot be sustainable. The further position of the questions that need to be answered as a prime qualification that BlackRock ETF companies failed further shows that there is something wrong with the system. The fact that even companies under BlackRock are the suspects of that failure further indicates that the current lack of trust in ESG is brought by not competent enough actions that use the system. Thus probably facilitating the topic of the next paragraph about its rebranding.

Rebranding coverage:

In the middle of all of these events, there has also been some other strange thing happening regarding ESG. To be more precise, there have been ongoing conversations about trying to avoid mentioning ESG, rebranding it, and creating a potential new system with similar bases in the midst of it all. However, this is still an ongoing issue in all of these situations concerning ESG. So, to begin this part of the discussion, one must start at the point when hesitation sets in. So the first point of interest should be the article by Reuters's Pete Schroeder, who stated this in the article:

“Asset managers have often been criticized for exerting undue influence on the management of their portfolio companies. Lawmakers have also accused such firms of prioritizing political motives over financial objectives. BlackRock, for example, came under fire from Republicans over its use of environmental, social and governance (ESG) factors in investing. The company denied the allegations, citing the billions it has invested in energy companies. Its CEO Larry Fink said last year he had stopped using the term "ESG" because it had become too politicized.” (Schroeder, 2024).

This shows that, at the very least, there is an ongoing feud between some American politicians who see ESG as a tool to pursue political motives rather than financial profits. The CEO of BlackRock encourages not to use the term for alleged politicization amid politicization. All of this paints the situation as complicated overall, with multiple sides accusing each other of things while one side also tries to encourage people not to use the term ESG that they propped up in the past. Further, this situation becomes stranger as talks about rebranding of ESG appear. This doesn't help and feels oddly timed in such a volatile situation where the credibility of the ESG system's institution is at hand. An article titled "ESG investing needs more than a rebrand" by Anthony

Schaivo discusses various ideas in regard to the ESG system's current predicament, problems, and dislikes by groups of people (Schiavo, 2024). One of the proposed solutions by this individual is to rename it to "rational sustainability", which they argue needs to be done because of its recent controversies and of it probably becoming a political issue(Schiavo, 2024). As this happens, it is hard to say that the suggestion of rebranding posited in their or even the others is done to address the internal ESG system's problems directly. That's mainly because it is odd that one of the proposed solutions is renaming or rebranding ESG during various situations that eroded trust in it. This further nails the question of whether this is a move away from unneeded attention that the system is currently in the middle of. Lastly, there is the rise of new initiatives similar to the BRIDGE initiative, which can also be a piece of this puzzle. BRIDGE, which stands for Benchmarking Race, Inclusion, and Diversity in Global Engagement is a system that is a new offshoot of the ESG sustainability system, which, by its admission, is trying to score the Diversity, Equity, and Inclusion (DEI) of companies in a similar manner ESG does for its factors (Agoglia, 2024). It as a system has already gone through 2 recent iterations of BRIDGE 1.0 and 2.0 in 2021 and 2023 (Agoglia, 2024). When looking at these new initiatives popping out as all ESG systems start to be criticized, there is a particular notion of it looking like another evolutionary offshoot of the system that has already changed from CSR to ESG and was shaped by the demands of its time period. So, when critically analyzing this system and looking into its foundations and the previously mentioned hesitancies of not wanting to rebrand ESG or not have it used as a term in conversations about sustainability, it is hard to look at all of this and say there isn't happening something in parallel to the currently developing situation. It could be that this is just a possible unrelated system because it only semi-loosely connects to ESG through DEI, but even then, the fact that it's similar in notion system should be a tip of something more happening. However, to

see what could be causing all of this and more, one must also seek further contrasting information. So, to see more clearly into this mist, one must also seek the viewpoints of professionals from the field and, thus leading this work to the personally conducted interviews that would fill that exact gap of knowledge.

Body 4: Interviews of personal communicate

Regarding a more professional viewpoint assessment on this topic, two interviews were conducted with people who have a history of working with, knowledge of, and studied this topic. These individuals are Mariana Javakhyan and Armen Stepanyan, both of whom have worked in the field of ESG and are very knowledgeable on this topic. So, with this section, the main goal is to go through various common and uncommon points regarding their individual responses on this topic and, with their personal assessments, give this work further debt.

General interview:

In terms of accuracy, Mariana Javakhyan noted that it would be hard to, in general, say if the scores are accurate or inaccurate for 100% mainly because of various factors like quality of the data, amount of it, multiple factors within the system, and more. That's why they can't say whether the data could be accurate or consistent. Armen Stepanyan, on this topic, went on to explain that because multiple platforms provide grading with various accents on various values of the ESG, to get an accurate score for a company, one must see which platforms must be used. Mainly because of the fact that to see a clear score for a company, one must use the correct platforms that are concentrated or give more importance to specific values of ESG and the company or the industry that is getting graded to get the correct grading. They also bring up the fact that, for example, some

sites like Sustainalytics could have different scores than others, both of which have high or lower scores. If looking back, this could be the reasoning and explanations as to why the data and information shown here are sometimes inconsistent, thus causing errors. In terms of truthfulness, Ms. Javakhyan said that it is more of an issue of qualitative and quantitative information because the data could not be for sure confirmed to be truthful, and Mr. Stepanyan tried to say that it again depends on what type of information is gathered and from where and what specific details have been viewed. Separately remarking that different ways ESG scores are graded as letters or numbers or other ways also means that the score could also be a risk or other data showing one. Also, they confirmed that ESG and CSR are systems that are related to each other. In a way, ESG is a successor to CSR, but Mr. Stepanyan also noted that there is an even older system than CSR, which is the oldest iteration of this idea. This further showcases how deep the roots of this topic are. Also, they confirmed that ESG and CSR are systems that are related to each other. In a way, ESG is a successor to CSR, but Mr. Stepanyan also noted that there is an even older system than CSR, which is the oldest iteration of this idea. This further showcases how deep the roots of this topic are. In terms of the Bridge initiative and the recent notion of rebranding, neither of them had a clear idea about these ongoing situations, so both asked to forward these topics to them. However, Mr. Stepanyan also commented that the rebranding could be just a usual affair and be done the same way as ESG succeeded CSR over time and eventually took its place. Also worthy of note is that both, when asked about if there are long-term savings of these grades for a long time, agreed that companies that get graded or audited for ESG usually save their data somewhere. They were also sure several platforms definitely should exist for this exact purpose in theory. However, when told that through research, only long-term data of ESG that was found going back only to 2020 both presumed and gave the answer that because only in recent years have governments all over started

to make laws around sustainability and ESG that could be the reason why long term data is sparse. From all of this, the system overall does have a certain hang-up. Still, specific factors like law, time, development, quality, quantity, and other factors mainly drive those. From all of this, a reasonable point of view from within the system can be formulated that it isn't per se the worst thing ever developed but a system that, like others, is constantly growing. This causes various mismatches, data inconsistencies, and other factors that could be counter to all of the points mentioned in previous paragraphs.

Answers about the table and a few other questions:

For the graph's assessment, both people in the interview agreed that the examples of inconsistencies could be coming from having lower overall scores of ESG because of having lower scores of Environment, Social, or Governance aspects. Further, they both pointed out that it could also be because of the grading platform grades in those aspects that could be further making inconsistencies or differences. Mr. Stepanyan also noted that many of the time, individual grading platforms could show different scores because they emphasized different things when grading a company. In the example of Tesla and two other car companies, he said that the most probable factor that causes the inconsistencies between them all is because Tesla could, even though have the best environmental impact, have an awful manufacturing process that could negate the good while the other companies can. To be more specific, he later said that, for example, a company could have no environmental impact like any of the IT companies on the table but could cause ecological problems because of the expenses of their technology's maintenance. This, of course, means that graders could be grading and evaluating even what the individual company uses its money to work or in their own process to make their products. This can, in many ways,

showcase that many ESG graders also probably don't have a unified scoring base even though they worked with the UN to establish this system. But Mr. Stepanyan also remarked that there is a clear possibility that sooner or later, there would be a future where a unified grade is possible and thinks it is just a matter of time before it becomes a reality. This shows that these data inconsistencies could be explained in a manner of sorts, even in a table like the one created here and from previously mentioned information in the general interview paragraph. However, it doesn't change the fact that even with some of the more rudimentary ways these inconsistencies could be appearing, there are far more of them when looking at various data points in the table. In a way, the explanation is logical. Still, because of the varying data differences between companies' grades, it's hard to find clear patterns of mostly agreeable data. It could also be possible that this could be because a lot of this data is not being more public and scarcely showcased. Even then, it is hard to say anything 100% conclusively about the grades or even the companies that are graded because there is a lack of similarity in methodology graders/auditors for the data, to be precise.

Criticism:

Lastly, there is the criticism they were asked about, for which the answers were similar, but they ended on a different note. In the case of Ms. Mariana Javakhyan, they stated that it is a flawed system and that some clear improvements need to be made, like in any system. They also said that the main thing that companies need to do is follow seven principles of disclosure, which are relevance, completeness, clarity, consistency, comparability, verifiability, and timeliness. From this, it can be said that this could be a nail that could directly confirm or prove all the passable problems of the system if the individual graders' faults are looked into. Certain parts of the seven principles need to be clarified when looking at the completeness, clarity, comparability, and

timeliness of some of the previously mentioned graders and their assessments done previously. On the other side, there is Armen Stepanyan's criticism, which revolves more around the fact that ESG and systems are inherently flawed and usually constantly need to be patched up, iterated, or improved. This obviously means they will get better over time, thus creating new iterations. This clearly explains all the problems because, in the end, all of this does amount to individual assessments of companies by varying graders with varying methodologies. This also gives the belief that there are flaws that can be fixed sooner or later.

Conclusion:

In conclusion, few things can be established for a general conclusion, even with the varying information from the literature review, graphs and tables, interviews, and news articles and reports on the topic. Firstly, ESG as a system most likely is not as perfect or robust, and there is admission for that in the data and personal interviews. Secondly, even though much is still to be disclosed about how the system operates to the larger public, what we have currently presented and studied about it showcases a broad distrust because of its flaws. Still, at the same time, there should be consideration of set flaws being mended by the system and lawmakers. Thirdly, although there are possible data gaps or misalignment of data that could lead to inconsistency, that have roots that grow from individual grader's different priorities. Fourthly, even though the system is going through a strange period of turbulence, there is a definite point of optimism or expectation for the system to change or improve, even if the details are not specific. Fifthly, no concrete data clearly or concretely shows the effects of ESG on companies, thus throwing a shade of uncertainty on the system and definite distrust of it, like with its predecessor CSR. From all of these, it could be said that describing this system of evaluation, its impact, openness, and trustworthiness is a work

complete of complications of visible and invisible variety that all need to be addressed with further disclosure of the system's inner workings. And as much as this work did its best to view it in its totality, in the end, it could be said what it views is a picture of grand and broadish strokes that can give a general assessment. Still, for the finer details of individual cases, further individual work must be done independently to gather details for this big puzzle painting. Overall, the only thing that can be assessed from all of this is that even though ESG is a relatively young system, it still has hiccups that span over a long period of its existence that still make it highly flawed, inconsistent, and untrustworthy in the eye of the public currently. However, what it will lead to and how it will change and morph in the future is still under question.

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