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ESG-strategizing of industrial companies: domestic and foreign experience

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Abstract. Strategic development of social and economic agenda in corporate sector of economy is a noticeable trend. Strategic leadership of the companies in the 21st century is impossible without consideration of the economic and public efficiency issues. Investors tend to study non-financial factors within the investment analysis to reveal non-system risks and find strategic opportunities for growth. ESG-strategizing deals with extensive directions of the company activities such as human resources policy, ethics, corporate management, corporate social responsibility, responsible investment, etc. Achieving high results in ESG-strategy triggers development of the company strategic brand, builds up long-term loyalty of the employees, investors and government agencies, as well as increases the trust of local residents in the regions of the company's presence. The author applies the methods of analysis and synthesis, comparison and generalization. The article contains analysis of the best practices of the implementation of ESG-standards into the activity of domestic and foreign companies in different industrial sectors including automobile, oil and gas, mining and creative industries. Basing on the conducted industry benchmark the author has developed conceptual architecture of ESG approaches' implementation into the company development strategy. Such documents of the strategy as the mission and the vision should point out the company's commitment to ESG principles. Considering the importance of communicating information to different actors correctly, the author adduces a set of tools of the strategic communication system. Use of the strategic communication system for promoting ESG-standards should be directed towards both the external and internal environments of the company. Digital tools of strategic communication meet the criterion of zero hydrocarbon emission in the most appropriate way.


Keywords: industrial companies, development strategy, ESG-agenda, ESG-strategizing, strategic communication systems, industry benchmarks, social investment

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ESG-стратегирование промышленных компаний: отечественный и зарубежный опыт

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Аннотация. Стратегическое развитие социально-экономической повестки в корпоративном секторе экономики является заметным трендом. Стратегическое лидерство компаний в XXI в. невозможно без учета вопросов экономической и общественной эффективности. Инвесторы все чаще исследуют нефинансовые факторы в процессе инвестиционного анализа для выявления несистемных рисков и поиска стратегических

возможностей роста. ESG-стратегирование касается обширных направлений деятельности компании: кадровая политика, этика, корпоративное управление, корпоративная социальность ответственность, ответственное инвестирование и пр. Достижение высоких результатов в области ESG-стратегии приводит к развитию стратегического бренда компаний, формированию долгосрочной лояльности сотрудников, инвесторов, органов государственной власти, а также повышению доверия местных жителей в регионах присутствия компании. Автором путем методов анализа и синтеза, сравнения и обобщения, в данной статье проведен анализ лучших практик внедрения ESG-стандартов в деятельность отечественных и зарубежных компаний разных секторов промышленности, включая автомобильную, нефтегазовую, горнодобывающую, а также креативных индустрий. Исходя из проведенного отраслевого бенчмарка, разработана концептуальная архитектура внедрения ESG-подходов в стратегию развития компании. В таких документах стратегии как миссия и видение должна быть подчеркнута приверженность компании ESG-принципам. Учитывая важность корректного донесения информации до разных акторов, в статье приведен набор инструментов системы стратегических коммуникаций. Использование системы стратегических коммуникаций для продвижения ESG-стандартов должно быть направлено не только на внешнюю среду компании, но и на внутреннюю. Цифровые инструменты стратегических коммуникаций наиболее удовлетворяют критерию нулевого выброса углеводородов.

Ключевые слова: промышленные компании, стратегия развития, ESG-повестка, ESG-стратегирование, система стратегических коммуникаций, отраслевой бенчмарк, социальное инвестирование

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工业企业的ESG战略规划：国内和国外的经验

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摘要：社会-经济议程在企业经济部门的战略发展是一个明显的趋势。如果不考虑经济和社会效益问题，二十一世纪的企业战略领导是不可能的。投资者在投资分析过程中越来越多地考察非财务因素，以识别非系统性风险和寻找战略性增长机遇。ESG战略规划涉及公司活动的广泛领域：人力资源政策、道德规范、公司治理、公司社会责任、负责任的投资等。在ESG战略领域取得高成效，将使企业能够发展战略品牌，形成员工、投资者、公共当局的长期忠诚度，以及提高企业所在地居民对企业的信任度。作者利用分析和综合、比较和概括的方法，分析了汽车、石油和天然气、采矿和创意产业等不同行业的国内外企业实施ESG标准的最佳实践。以行业基准为基础，制定了在公司发展战略中实施ESG方法的概念架构。使命和愿景等战略文件应强调企业对ESG原则的承诺。鉴于向不同参与者正确传达信息的重要性，本文提供了一套用于战略通信系统的工具。使用战略通信系统普及ESG标准不仅应针对企业的外部环境，还应针对企业的内部环境。战略通信数字工具最符合零碳排放标准。

关键词：战略、ESG议程、战略通信系统、基准、工业企业、社会投资

Introduction

The traditional investment principles transformation is caused by the emergence of new non-systemic risks. The global interdependence and interconnectedness of the world's economies, as well as global *sustainable development* issues such as floods, pandemics and natural disasters, data collection risks, privacy and security, and de-

mographic shifts are creating new risks for investors. Therefore, new methodological approaches are emerging that contribute to more effective strategic goals achievement. The term ESG (Environmental, Social and Governance) implies environmental, social and corporate management [1]. This term is often synonymous to responsible (*sustainable, socially responsible, mission-related,*

values-based, impact) investing. Implementation of ESG-investing approaches and principles is a strategic trend for many industrial and investment companies and banks in different countries of the world. Achieving high results in ESG strategy leads to strategic brand development for the company, lasting loyalty from employees, investors and government agencies, and also increases the trust of local residents in the regions where the company has a presence.

Historical perspective on the ESG-investment concept development

The ESG investing concept is in its active formative stage (Table 1).

In the early 1990s, J. Elkington, an entrepreneur and management consultant with hands-on experience in corporate and environmental consulting, made a new attempt to measure the performance metrics of American companies. He proposed the *Triple Bottom Line concept* (3 Ps: *people*, *planet* and *profit*), including environmental and social performance metrics. The ESG approach has become considerably widespread thanks to the report “Who Cares Wins. Connecting Financial Markets to a Changing World” in 2004 by the United Nations (UN) Global Compact initiative [4]. The report itself contains recommendations to improve environmental, social and governance issues integration in securities analysis, asset management and brokerage. Much attention in these recommendations is paid to reconcile all the interacting parties’ interests – investors, society and company – which directly corresponds to the strategy development methodology by academician V.L. Kvint [6].

Further, the ESG concept was enshrined in the UN Principles for Responsible Investment:

“Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles” [5].

By 2021, more than 2,700 companies from different sectors around the world had signed up to these principles.

An important step towards the implementation of ESG regulation in Russia was the signing of the government decree on Russia’s inclusion in the Sustainable Development Goals. The criteria and requirements for “green” and “sustainable” ESG projects were clarified, key concepts as well as metrics for evaluating individual projects depending on the industry were introduced. At the same time, active measures are introduced to counteract the misuse of investor funds raised for “green” projects. In the event of improper use of the allocated funds, the investors have the right to reclaim the invested funds or to increase the interest on the coupon income.

The implementation of ESG standards in the activities of companies is the subject of studies by

Table 1

ESG concept development historical perspective

Year	ESG concept development stage
1997	J. Elkington's Triple Bottom Line concept [2]
1999	Launch of Dow Jones Sustainability Index (DJSI)
2000	Publication of the first version of the Global Reporting Initiative's reporting guidelines [3]
2004	ESG notion implementation in the United Nations (UN) Global Compact Report [4]
2006	The United Nations Environment Programme Principles for Responsible Investment (PRI) presentation [5]
2014	European Union ESG legislation emergence

Sources: compiled by the author based on [2–5]

many domestic and foreign economists, sociologists and financial experts. Thus, the majority of works are devoted mainly to economic and social efficiency [7–11], new investing features [12, 13], corporate social responsibility [14, 15], public-private partnership [16, 17].

Strategic benchmarking of foreign ESG agenda practices

Strategic transnational leader Microsoft is ranked number one among industrial companies in the ESG ranking¹. The company sets a strategic goal to promote sustainability and low-carbon business practices around the world through its business practices and cloud technology. Microsoft has had a carbon-neutral policy worldwide since 2012 and is committed to becoming carbon-neutral by 2030. As ESG tools, the company has developed its own emissions calculator that shows customers their carbon footprint and helps them report on the carbon footprint of their IT services. Below are a few examples of strategic scenarios showing how organizations can use Microsoft Cloud for Sustainability to achieve their goals:

- IT departments will be able to easily report on carbon emissions from various devices and applications (cloud storage);
- Companies will be able to track Scope 1–3 emissions (i.e. emissions from the company's own sources, emissions from purchased energy, and all other emissions), track changes, report relevant data to counter-parties, and generate reports.

For Toyota, a company in the automotive industry, the protection of fauna and flora is part of its ESG agenda. The Toyota e a Mata Atlantica ESG project includes reforestation, protection of threatened areas, environmental education and volunteering. The Toyota APA Costa dos Corais ESG project aims to protect coral reefs, mangroves and manatees (aquatic mammals) in the Costa dos Corais Environmental Protection Zone (406,000 ha), considered one of the most beautiful areas in Brazil, and also carries out biodiversity conservation activities by managing restricted access areas. Over the past 10 years, the project has conducted

several expeditions to observe coral reefs and manatees, trained 300 mangrove guides and established 25 visitor areas for tourists. It can thus be stated that the company is also working on the ESG agenda in the area of cultural and creative industries. One of the project priorities is the creation and maintenance of an investment fund to provide ongoing support for the APA Costa dos Corais strategic management, protection and sustainability. Since 2011 Toyota do Brasil has been making annual contributions to ensure the fund's resources continued growth².

Today, there are already formalized ratings that assess the ESG compliance of major companies. They are regularly published by the rating agencies S&P Global, such as the SAM CSA rating, according to which Air France-KLM is the absolute strategic leader in the aviation industry. The company managed to successfully implement a program to switch to environmentally friendly aviation fuel, as well as to reduce the number of air travel over short distances by starting to cooperate with rail companies. The absolute leader in the category "Oil and gas transportation and storage" was Spanish Enagas that managed to reduce carbon dioxide emissions by more than 50 % in the last 4 years. For the strategic horizon (by 2040), the company plans to become completely carbon-neutral.

The strategic IT market leader Apple has confirmed that more than 80 % of the carbon dioxide emissions associated with its devices occur precisely at the production stage. The company is actively trying to combat the problem with non-standard methods: buying back old iPhone models for subsequent utilization, officially repairing the devices, using recycled materials in production, reducing the packaging of the devices sold (excluding headphones, chargers, etc.).

Companies in the fashion industry, as players in the cultural and creative industries, are actively implementing strategic initiatives in the ESG agenda due to the influence of the conscious consumer trend [18]. Thus, we can note the growth of *upcycling* brands³ in countries with emerging

¹ Corporate responsibility. URL: https://www.microsoft.com/en-us/corporate-responsibility/sustainability?activetab=pivot_1%3aprimar3 (дата обращения: 25.05.2022).

² Toyota APA Costa dos Corais Project. URL: <https://fundacaotoyotado brasil.org.br/en/projetos/toyota-apa-costa-dos-corais-project/> (дата обращения: 29.05.2022).

³ Такие бренды вторично используют материалы в производстве.

markets (Uzbekistan, Kazakhstan et al.). Prada Group is the first group of companies that has implemented a strategic initiative in the field of responsible finance. It has developed loans that are financial instruments with a mechanism that makes it possible to reduce the interest rate while achieving the quantitative goals of reprocessing and recycling production waste and increasing the share of energy from own production⁴. Chanel house has launched a new line of environmentally responsible skin care, perfumes and cosmetics No. 1 de Chanel. The line is committed to minimize its environmental impact through strictly controlled formulation and low-carbon packaging. The cream lids are made from 90 % bio-based materials. The containers are also made of lighter glass and come without cell phone or paper leaflets⁵.

ESG agenda strategic development in Russia

ESG-strategy is a national trend in Russia: more and more companies are starting to follow ESG-principles.

PJSC (PAO) Gazprom, an energy sector strategic leader, as part of the ESG transformation, in particular⁶:

1. The Company has elaborated a sustainable development policy, which was approved by PJSC Gazprom's Board of Directors on April 30, 2021 (No. 3576); there is an action plan aligned with the UN goals. It also develops sustainable development scenarios until 2050 and regularly holds strategic ESG sessions where responsible employees present the results in this area and discuss strategic goals and objectives for the future.

2. The Company has developed public and economic efficiency metrics. In the development of economic potential such indicators are: economic profit growth; return on equity employed and innovative activity efficiency using integral

key indicator. In the area of improving the corporate governance system: return on shareholders' investments; customer satisfaction index of the Russian Federation (gas business, electric power business, gas motor fuel sales segment). In the field of environmental protection: reduction of specific greenhouse gas emissions in CO₂-equivalent, including methane; fuel and energy resources specific consumption for own process needs and gas transmission losses. In the area of human rights: the average number of hours spent by employees on all types of training during the year; the share of employees who received vocational training (for workers), retraining and advanced training. In the area of occupational safety: occupational accidents frequency reduction, occupational emergency accidents frequency reduction⁷.

3. Created a separate information portal where ESG issues results and reports are published⁸.

Many Russian companies also implement and adhere to ESG-principles. The only industrial domestic company that was included in Standard & Poor's ratings⁹, was the industrial mining company JSC (AO) Polymetal. In 2020, the Russian office spent over \$18 million on socially significant projects in the regions where it operates. The company has also supported many people from the North by recruiting almost a quarter of its employees from the local community. It implements projects aimed at preserving cultural heritage, invests in infrastructure for educational purposes. In its annual report on achieving its sustainability goals, the company discloses key ESG indicators, including:

1. In the area of social responsibility (occupational health and safety): no fatal accidents, and a 38 % reduction in the Lost Time Injury Frequency Rate (LTIFT) per 20,000 work hours per year (to 0.12). JSC Polymetal increases the regional suppliers share of (up to 43 %), and includes a human rights clause in all contracts with business partners.

⁴ ESG Loans. Sustainability/Prada Group. URL: <https://www.pradagroup.com/en/sustainability/environment-csr/esg-loan.html> (дата обращения: 25.05.2022).

⁵ Chanel sustainable luxury. URL: <https://www.investisdigital.com/blog/esg-and-sustainability/chanel-sustainable-luxury> (дата обращения: 25.05.2022).

⁶ Energy of life. Gazprom Group's Sustainability Report 2020. URL: <https://sustainability.gazpromreport.ru/2020/> (accessed: 25.05.2022).

⁷ Gazprom Group's Sustainability Policy. URL: <https://sustainability.gazpromreport.ru/fileadmin/f/common/2021-04-30-sustainability-policy.pdf> (accessed: 25.05.2022).

⁸ Ibid.

⁹ ESG S&P Global Ratings evaluation. URL: <https://www.spglobal.com/ratings/ru/pdf-articles/2022-03-03-sp-esg-evaluation-analytical-approach-ru> (accessed: 25.05.2022).

2. In the area of environmental responsibility: recycled and reused water share is 89 %, specific greenhouse gas emissions reduction by 4 % and energy intensity by 3 %.

In 2020, the domestic strategic leader in the IT-industry Yandex LLC presented its first sustainability report¹⁰. This document reflects the sustainability agenda, which is a list of priority areas for the company in the social, environmental and corporate spheres. To develop the ESG-strategy, Yandex LLC analyzed and audited its strategic initiatives and systematized all its projects related to the impact on the economy, nature and society. The agenda combines 12 main areas of sustainable development (Fig. 1).

Part of the strategic areas were adopted even before the Yandex ESG agenda announcement (employees well-being and services quality). Strategic priorities in waste management and carbon footprint reduction are new, and technology transfer can be a tool for their solution and implementation. The training of the company's employees has been included in the area of human resources development – the company has invested \$5 billion in the training and development of its employees, as well as in the development of educational projects

(establishment of lyceums, publication of teaching materials, training of teachers, etc.). Yandex also added a block of company new strategic priorities: ethics and integrity. It includes information security and the personal data protection, responsible and secure shopping, and content quality. Anti-corruption and antitrust practices are also a new strategic priority.

One of the strategic trends is the use of platform solutions in the companies' operational activities. Following this trend, VTB Group, a strategic leader in banking and financial services, announced the launch of a federal-level initiative in 2021 – the ESG Platform. It is an “open infrastructure for ESG transformation, including a range of financial products and services that meet environmental, social and corporate governance standards”¹¹. A number of competitive advantages of such a digital platform should be noted:

- 1) wide range of platform potentially interested parties and users: large, medium and small businesses, subjects of Russian regions, individual entrepreneurs;
- 2) simple and user-friendly platform interface;
- 3) wide range of social and financial support services and measures.

¹⁰ Yandex Group 2020 Sustainability Report. URL: <https://ir-docs.s3.yandex.net/sustainability/Отчет%20в%20области%20устойчивого%20развития%20группы%20компаний%20Яндекса%202020.pdf> (accessed: 25.05.2022).

¹¹ VTB group announces ESG platform creation. URL: <https://www.vtb.ru/o-banke/press-centr/novosti-i-press-relizy/2021/10/2021-10-14-vtb-obyavlyaet-o-sozdanii-esg-platformy/#!> (accessed: 25.05.2022).

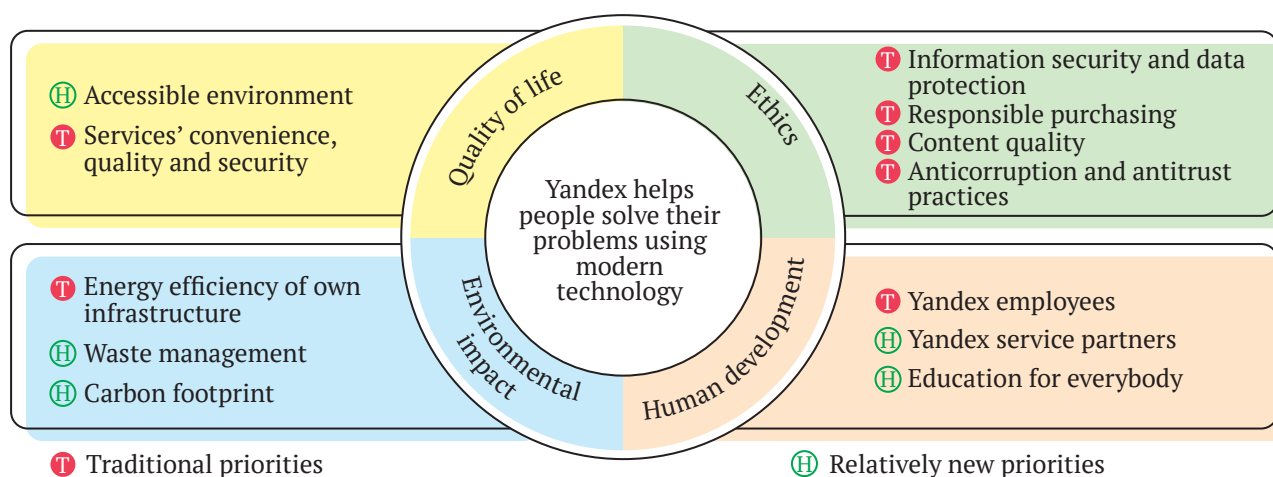


Fig. 1. Yandex's sustainable development agenda

Source: Yandex Group sustainability report 2020. <https://ir-docs.s3.yandex.net/sustainability/Отчет%20в%20области%20устойчивого%20развития%20группы%20компаний%20Яндекса%202020.pdf> (accessed: 25.05.2022)

Another domestic strategic leader in gold mining, PJSC (PAO) Polyus, regularly reports on its ESG results. The company managed to completely switch its assets to renewable energy sources. Stakeholders note that they turned out to be even more profitable than the standard methods of coal-fired power generation. The company management pays special attention to the formation of a strategic employer brand and emphasizes the ESG agenda importance and role in achieving the result. In its opinion, a high salary is not enough for this, the employees must realize that they work in a company that cares about the team, as well as shows responsibility in the eyes of local regulators and supervisors. Among the company other accomplishments in the ESG agenda, we can consider the following indicators:

1) environmental responsibility – 94 % of water is reused in production, CO₂ emissions reduced by 18 % compared to 2019;

2) social responsibility - achievement of LTIFT indicator at 0.18, absence of fatal accidents;

3) 73 charitable and socially important projects in the regions of operation; \$50.6 million allocated for social support measures;

4) in the regions of operations – \$300 million of energy projects investments, which meet the “green economy” standards;

5) in terms of managerial compliance – federal taxes and contributions of \$645 million, 55 % of local management consists of local community and 15 % of them are women.

PJSC (PAO) Rosneft has been working on sustainable development since 2006 and has since published its open reporting. The Company's activities are standardized and aligned with the GRI Sustainability Reporting Standards, the UN Global Compact principles, the IPIECA/API (2016) Guidelines for Voluntary Sustainability Reporting in the Oil and Gas Sector, and the 2008 Basic Performance Indicators of the Russian Union of Industrialists and Entrepreneurs¹². The company has strategic initiatives aligned with UN principles. The strategic priority to introduce ESG principles into the company's activities is an integrated part of the company's long-term

strategy. In contrast to the identified best practices of companies, this strategic leader highlights a separate strategic priority related to the development of scientific and technological capabilities. The company is shaping its workforce through youth outreach and IT-marathons. The accelerated digitalization program development, the emergency and energy-saving technologies implementation, the digital technology centers launch, and comprehensive case studies are strategic initiatives of the company's innovation activities¹³.

Based on the best practices analysis, many Russian companies are already conducting ESG-transformation. The strategic motivation for implementing such approaches is related to the desire to obtain international capital markets. The regulators' ever-increasing requirements and legal procedures related to sustainability issues require companies to act more responsibly.

ESG-principles implementation in the strategy development methodology

Having studied ESG-transformation foreign and domestic experience and in accordance with the V.L. Kvint strategy development methodology [19, 20], the author has developed a conceptual architecture for the ESG-approaches implementation in the company strategy (Fig. 2).

Taking into account the investigated strategic trend for companies' business activity transformation in different industries, it should be noted that company strategic priorities should be developed in accordance with ESG approaches. The mission and vision strategy documents should have a clear link with ESG themes.

To reflect the ESG agenda in the visual concept of the corporate brand, the logo and other elements of the styling graphics should have the colours of sustainable development - in the reports of the interviewed companies there is a color palette with slight gradations.

To create a new business image of a responsible company and build the brand, it is necessary to use the tools of the strategic communication system. Qualitative information on the economic and social efficiency of the enterprise can be presented

¹² Sustainable Development Reports. URL: <https://www.rosneft.ru/Development/reports/> (accessed: 25.05.2022).

¹³ Company sustainability reports. URL: https://www.rosneft.ru/upload/site1/document_file/Rosneft_CSR2020_RUS.pdf (accessed: 25.05.2022).

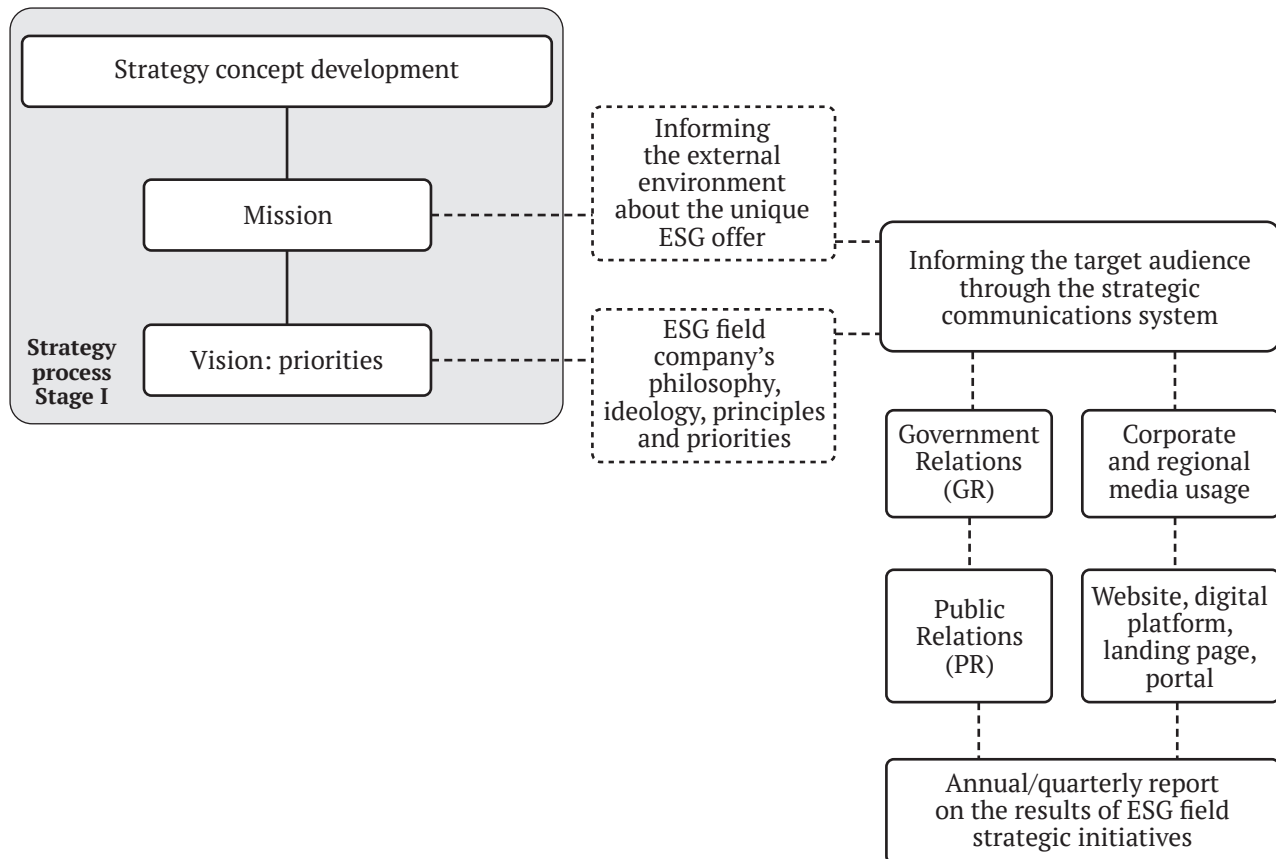


Fig. 2. Conceptual scheme of ESG-strategizing process

in the form of a report - quarterly or annual – in electronic or printed form (in which case the use of recycled material is recommended). The digital provision of information can make it possible to meet the criterion of zero hydrocarbon emissions.

The company's workforce, which is a very important asset for the implementation of the strategy, must share the company's values of sustainable development - only if all the company's strategic goals are shared by the employees can these goals be achieved. Therefore, all corporate media should be a practical toolbox that can be used by the company's employees: digital platforms, corporate social networks, corporate portals, brochures, bulletins, leaflets, newspapers, magazines, including electronic communication tools.

To share experiences and best practices, the company can initiate an ESG conference, congress or symposium. This type of business communications contributes to formation of profes-

sional communities and common standards of business. As a result, this should lead to an increase in public and economic entrepreneurship efficiency.

Conclusion

The ESG approaches introduction is a strategic trend, both domestic and foreign. Many companies have set themselves the goal of being climate neutral, supporting social and charitable projects, expanding programs to promote environmental protection and much more.

Today ESG-principles are one of the main strategic development components. Together with the UN Sustainable Development Goals they define strategic initiatives for the future development of the corporate sector worldwide.

Correctly informing the state, society and employees about the changes associated with the company's ESG strategy plays an important role. This requires the use of an extensive toolkit of the strategic communication system.

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