USF® Muma Business Review
A publication of the Muma College of Business | University of South Florida
Volume 7, Number 11 | Research Question Review | 31 OCTOBER 2023

What strategies can motivate businesses to consider implementing ESG?

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ESG (environmental, social, and governance) continues to evolve and there is no agreement as to whether it can coexist with profit maximization goals. As a result, some businesses have not been fully committed to ESG, and progress toward global sustainability has been less than optimal. This research explores the strategies that can motivate businesses to embrace ESG initiatives.

One of the main barriers facing this undertaking is the lack of standard measurements to assess ESG effectiveness. The other challenge for businesses is the need to interact with and potentially accommodate diverse groups of stakeholders whose objectives may not coincide with corporate priorities. Among the key stakeholders are boards of directors who must balance financial and ESG priorities while recognizing and maintaining the reputations and brands of the firms that they represent.

One of the ways to motivate businesses to embrace ESG is by exhibiting linkages to corporate strategies. The key strategies deal with financial planning, risk mitigation, board diversity, brand management, and stakeholder relationships. The principles of evidence-based research are applied to provide recommendations dealing with the implementation of these strategies to address the business problem. Evidence-based research derives principles from theories and translates them into decision tools that address tangible organizational challenges (Rousseau, 2006). The Rapid Evidence Assessment (REA) methodology is utilized to search for and evaluate relevant literature, to develop themes and actionable plans, and to identify areas that require additional research all in support of driving progress in this global imperative.

Although the importance of environment, social, and governance (ESG) is widely recognized, there is no agreement as to whether it can coexist with business profit maximization goals.

Keywords: Environment, social, governance, ESG, sustainability, motivation, stakeholder(s)

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For over 100 years, corporations have endeavored to maximize shareowner value. Although Bowen (1953) advocated for businesses to adhere to the values of society, it is really only over the past 20 years that Corporate Social Responsibility (CSR) initiatives, including sustainability goals, have become more prominent. In 2004, the United Nations introduced Environmental, Social, and Governance (ESG) as a means to measure sustainability (Aldowaish et al., 2022). On the surface, these undertakings appear to contradict the ingrained philosophies in the business world fostered by Friedman (1970), and others to maximize profits while paying less attention to non-financial goals. Denning (2021) noted that the apparent shift from "shareowner value maximization" to "value creation" is actually not at all a change and that Drucker's (1954) true focus was meeting customer demands in ways that they are willing to pay for. The Business Roundtable embraced this viewpoint but called it "stakeholder capitalism" which recognized that a firm's success was contingent upon benefiting all stakeholders, including customers, employees, suppliers, communities, and shareholders (Hemphill et al., 2021). This is where ESG fits in because it involves measuring the impact that business actions may have on diverse groups of stakeholders that have both financial and non-financial interests (Denning, 2021).

Literature Summary

Five major findings emerged from the REA after completing a three-stage inductive process that consisted of codes, categories, and themes. Ultimately a narrative is created that fits into a larger story that transpires from the data. Recommendations that address the business problem emerge from the themes (Braun & Clarke, 2006). Table 1 summarizes the findings.

Protocol

Three databases were searched for this study - Business Source Ultimate, ABI Inform, and SCOPUS – using the Boolean search string: "ESG or environment* w3 social* w3 govern* AND motivat*." The snowball method was used to harvest additional evidence (Noy, 2008). The inclusion criteria required that the articles selected be scholarly/peer-reviewed, available in the English language, and less than 10 years old. This resulted in 16 articles selected from the 219 records identified upfront. Six of the articles came from the Business Source Unlimited database, three came from the ProQuest ABI/Inform database, five came from SCOPUS, and two were harvested from snowballing.

Table 1: Findings

Finding	Summary	Sources
Firms pursuing ESG initiatives may be motivated by financial considerations	**Although there is no certainty of ESG's economic impacts, financial considerations cannot be ignored. There are both commercial incentives promoting sustainability as well as regulatory incentives to avoid financial penalties. Studies did actually did find linkages between ESG and strong financial performance. However, without profits, companies would eventually go out of business, leaving employees without work, vacating storefronts, and reducing tax bases that support societal needs.**	**Amel-Zadeh & Serafeim (2018); Arif et al. (2021); Balogh et al. (2022); Brander & Zhang (2017); Chevrollier et al. (2019); Chouaibi et al. (2020); Dasgupta (2022); Kang et al. (2022); Przychodzen (2016); Rezaee & Tuob (2017); Walton (2022); Zhai (2022); Zhang (2022); Zumente et al. (2022)**
Motivation to be situationally aware of ESG's barriers and enablers can support a firm's risk mitigation strategy	**One of the first steps in risk management and attempting to avoid crisis situations is situational awareness. Knowledge of the barriers and enablers of ESG can allow firms to identify risks, evaluate their seriousness, and take appropriate actions.**	**Amel-Zadeh & Serafeim (2018); Arif et al. (2021); Balogh et al. (2022); Bosone et al. (2022); Brander & Zhang (2017); Chevrollier et al. (2019); Chouaibi et al. (2020); Dasgupta (2022); Harjoto et al. (2019); Kang et al. (2022); Przychodzen (2016); Rezaee & Tuob (2017); Walton (2022); Zhai (2022); Zhang (2022); Zumente et al. (2022)**

The composition and attributes of Boards of Directors can motivate firms to pursue ESG initiatives	**A firm's board of directors has considerable influence on the business' strategic direction. Board characteristics like size, member independence, and diversity are seen as positive forces in ESG activities, reporting, and reporting quality. For example, foreign board members are often more aware of environmental issues and are less likely to have a vested interest in any potential wrongdoings. Board diversity is also positively correlated with firm financial, environmental, and social performance. Hence, board composition, attributes, and recruitment strategy can be influential in motivating firms to embrace ESG.**	**Arif et al. (2021); Arora (2022); Balogh et al. (2022); Chouaibi et al. (2020); Kang et al. (2022); Zumente et al. (2022)**
Culture, attributes, and policies can motivate ESG adoption to strengthen the value of a firm's brand	**Firms with strong corporate cultures consider the needs of multiple stakeholders while creating and implementing ESG disclosure policies. Firms doing so experience improved transparency, legitimacy, reputation, customer engagement, loyalty, and brand awareness – all which could lead to sustainable competitive advantage. The desire to enhance one's brand and linkage to one's brand strategy may also motivate ESG adoption.**	**Arif et al. (2021); Balogh et al. (2022); Chevrollier et al. (2019); Chouaibi et al. (2020); Dasgupta (2022); Harjoto et al. (2019); Kang et al. (2022); Przychodzen (2016); Walton (2022); Zhai (2022); Zhang (2022); Zumente et al. (2022)**
Firms pursuing ESG initiatives need to manage their interaction with diverse groups of stakeholders in concert with their joint interest and motivations to "do good"	**Companies that have positive interactions with their stakeholders are often motivated to do so in order to be considered a "good company" that practices "corporate citizenship." The opposite scenario is where stakeholders and markets could punish firms by refusing to do business with them. There is often pressure and scrutiny from these stakeholders on things like ESG disclosure policies and transparency. More efficient ESG disclosures ultimately resulted in positive signals being sent to suppliers, creditors, and government regulators. Another consideration is the generational shift in business leadership whereby the younger age group (e.g., millennials, Gen Y, and Gen Z) tend to be more focused on ESG-related issues.**	**Amel-Zadeh & Serafeim (2018); Arif et al. (2021); Balogh et al. (2022); Bosone et al. (2022); Brander & Zhang (2017); Chevrollier et al. (2019); Chouaibi et al. (2020); Dasgupta (2022); Harjoto et al. (2019); Walton (2022); Zhai (2022); Zhang (2022)**

Recommendations

Recommendations that address the business problem and research question are derived from the themes and findings (Braun & Clarke, 2006). Table 2 summarizes the recommendations that can motivate firms to embrace ESG initiatives.

Discussion

The themes that emerged from this research represent strategies that, either individually or collectively, may motivate firms to pursue ESG initiatives. While these strategies may apply across a wide range of businesses, Simpson and Brumme (2022) feel that startups may have an advantage instilling a purpose in their firms that considers ESG up front. This suggests that more mature businesses also need to such a purpose but it may be a bit more challenging due to inertia.

In any case after the purpose is adopted by a firm, the ESG motivation narrative begins with financial strategies because firms cannot be expected to establish and maintain any commitments if they are not financially stable. Some ESG initiatives can very well

Table 2: Recommendations		
Recommendation	**Summary**	**Sources**
ESG should be integrated with financial planning	**Firms in financial trouble would not have the capacity to pursue ESG investments so businesses should be motivated to invest wisely. Integrated ESG financial planning and analysis could cover a multitude of sustainability topics including climate change, human rights, poverty reduction, labor standards, and corruption, to name a few. One place to start could be quantifying the cost of avoiding a lawsuit or any type of liability from non-compliance via business case analyses. Strong financials are a foundation that motivate investments and should be considered when developing ESG plans.**	**Cherneva (2012); Dasgupta (2022)**
Support and be active in standards development to mitigate risk	**Lack of consistent, reliable, timely, quantifiable, and comparable measurements jeopardizes a firm's ability to truly know how it is performing. The situational awareness of this measurement deficiency is the first step in generating an action plan to proactively address it. The proactive participation in international technical standards initiatives can preclude self-serving parties from influencing policy. A parallel can be drawn to reporting standards whereby having a "seat at the table" when decisions are being made about ESG reporting standards can reduce the overall risk to the firm.**	**Amel-Zadeh & Serafeim (2018); Balogh et al. (2022); Trakas (2014)**
Promote diversity in boards of directors	**Firms with diverse boards exhibit higher sustainability performance, and tend to be ahead of the curve on sustainability reporting as well as financial performance. The three most common initiatives driving board diversity are 1) requesting that search firms provide diverse candidates, 2) proactive discussions about boardroom diversity as meeting agenda topics, and 3) instituting a board diversity policy. Any of these initiatives can result in more diverse boards that will motivate ESG adoption and improve firm performance.**	**Boards (2012); Zumente et al. (2022)**
Protect the brand and perform brand research	**The three aspects of brand management within the ESG space are brand credibility, brand image, and perceived quality. Qualitative research and longitudinal studies are recommended to determine how customers perceive a firm's ESG strategies. This would include not only customer research but research involving other key stakeholders to better understand image, reputation, and brand. The goal is to understand how ESG can generate positive brand awareness and perception.**	**Koh et al. (2022)**
Institute a stakeholder management strategy	**Many groups of stakeholders believe that their priorities will influence firms to "do good." Younger business leaders are especially putting pressure on firms to address societal and environmental issues. This stakeholder demographic will become an even greater influence over time. This requires a stakeholder engagement strategy to navigate between the conflicting and perhaps contentious forces that an organization faces. Four different stakeholder management models exist: complementary engagement, substitutional engagement, minimalist engagement, and encompassing engagement. The most appropriate model will depend upon the firm itself, the stakeholder(s), and the operating environment.**	**Gupta et al. (2020); Ruggie & Middleton (2019)**

generate positive value that can motivate action on their own. Other initiatives may not result in obvious monetary benefits. However, all ESG opportunities should be assessed with a business case so firms are aware of any financial impacts upfront and can plan accordingly.

Very much related to financial considerations are situational awareness and risk mitigation concerning ESG barriers and enablers that can either benefit or handicap a firm. The literature supports ESG initiatives as invaluable to corporate risk managers and to portfolio managers who assess the non-financial aspects of a firm's performance (Przychodzen et al., 2016). So, the potential to mitigate risk may motivate firms to pursue ESG initiatives.

Boards of directors' awareness and involvement in ESG has also been well-documented (Zumente et al., 2022). In addition, the literature has established that more diverse boards are more ESG-friendly (Chouaibi et al., 2021) and perform better than non-diverse boards (Arora, 2022). The relative success of more diverse boards could motivate a firm to become more engaged in ESG.

A key part of a firm's involvement in ESG is perception and reputation. As a result, ESG can play a role in the strengthening or weakening of one's brand. Firms can leverage the positive equity associated with a green brand image (Sun & Zhang, 2019). However, just as easily, greenwashing - that is, only creating the appearance of taking appropriate actions (Jhamb, & Fiegl, 2022) - can lead to consumer skepticism that can be detrimental to one's brand (Sun & Zhang, 2019). Zhang (2022) believed that although greenwashing could result in some short-term financial gains, it is a more risky and speculative strategy. Sun and Zhang (2019) concluded that greenwashing was shortsighted as governments would eventually implement punitive measures to discourage such behaviors and reputations could suffer. Chevrollier et al. (2020) found that strong corporate cultures and the consideration of the needs of multiple stakeholders were key factors in maintaining one's reputation. Reputation and brand enhancement, driven by stakeholders, can also be a motivator for ESG engagement.

Finally, the motivation to "do good," has been linked to certain demographics of stakeholders. Millennials are considered more socially and environmentally conscious and want some assurance that their investments can do good for society and/or the environment (Formankova et al., 2018). Ruggie and Middleton (2019) reinforced that this demographic shift would continue and could motivate leaders to incorporate more ESG practices in their firms. Polman (2022) identified younger activists as employees, consumers, and voters who are frustrated with the political process. Those in these age groups look to the private sector to take the necessary actions to shift corporate mindsets from a "do less harm" mentality to regenerative and restorative business models.

Conclusions

The world has come a long way since Friedman (1970) declared that "the business of business is business." Business leaders are becoming more responsive to diverse groups of stakeholders whose goals extend beyond profit maximization. Boards of directors are becoming more in tune with these stakeholders and the pulse of the respective communities that they serve. Millennials have an increasingly loud voice such that their social and environmental priorities must be listened to. Although barriers to progress like the need for standard metrics are being addressed, it is not happening quickly enough. Until guidelines are established and endorsed by GAAP-like organizations around the globe, greenwashing and other less-than-ethical tactics will still be possible.

Even if standards are developed and regulations are implemented, there is still momentum to overcome. However, there is evidence that ESG's non-financial objectives can coexist with business planning activities. This will require the integration of ESG within corporate strategies which, in turn, will motivate firms to embrace the changes necessary to drive sustainability. The balancing of financial planning, risk mitigation, board diversity, brand management, and stakeholder relationships with an ESG perspective is a suitable place to begin.

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Review

This article was accepted under the ***constructive peer review*** option. For futher details, see the descriptions at:

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