

Disclosure of ESG business sustainability components in non-financial reporting of companies: the problem of the chosen ones?

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Abstract. The article is devoted to the study of the problem of disclosing the components of ESG business sustainability in non-financial reporting of companies. The authors raise the question of the availability of non-financial reports, the problem of correlating the information provided by RAEX rating data and the presence or absence of public data on company websites. As in many foreign and Russian publications, the authors of the article emphasize that the practice of non-financial reporting has become typical for large business companies, while at the same time, the official Internet portals of many companies, even the leaders of the ESG rating, contain only occasional mention of projects and initiatives, not appear to be of a systemic nature. The undisputed leaders both in the RAEX rating and in the provision of non-financial reporting are companies belonging to the 1st level of MOEX listing. The authors of the article believe that in order for non-financial reporting to become a common practice not only for large business companies, but also for medium and small businesses, much remains to be done.

1 Introduction

Over the past two decades, ensuring sustainable development has been a priority in the strategy of most developed countries, but in developing countries and countries with economies in transition, the concept of sustainable development is at the stage of inception and integration into national programs. The topic received particular attention from a wide range of stakeholders following the official entry into force of the 2030 Agenda for Sustainable Development, adopted by world leaders at the United Nations (UN) summit in 2015. Structure sustainable development includes 17 Sustainable Development Goals (SDGs), which cover a wide range of issues and aim to find effective solutions to the complex challenges of modern society that require interdisciplinary perspective. At the present stage, one of the scientific problems of research is the study of processes and factors influencing sustainable development. The growing relevance of methods for achieving sustainable development of the global economy is due to several factors. Firstly, the increasing globalization of socio-economic processes, the creation of a single information space, technological pressure on the environment and the depletion of the planet's natural resources

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require the assessment and practical implementation of systemic elements of the concept of sustainable development. Secondly, according to the latest Sustainable Development Report (2019–2023) and academic research, most countries in the world show limited progress in achieving the UN SDGs. Looking at the data presented in the 2023 report, you can see that even Finland, which has the highest rating of 86.86 points, does not achieve all SDGs. Countries in this report are ranked by an overall score, which measures overall progress towards all 17 SDGs. At the same time, a percentage of SDG achievement of 100 points means that all SDGs have been achieved. In addition, the post-Covid economy leads to the transformation of priority areas for the development of countries, the redistribution of resources, and the development of new business models, which will significantly affect certain UN SDGs in the short term. Moreover, the scope of the concept of sustainable development is constantly expanding, new characteristic aspects of modern development are being added, and it is expected that new goals and indicators will be included in the agenda. Sustainable development implies a combination of goals and objectives, the solution of which requires global partnership and cooperation at the level of countries and supranational bodies. Countries in this report are ranked by an overall score, which measures overall progress towards all 17 SDGs. At the same time, a percentage of SDG achievement of 100 points means that all SDGs have been achieved. In addition, the post-Covid economy leads to the transformation of priority areas for the development of countries, the redistribution of resources, and the development of new business models, which will significantly affect certain UN SDGs in the short term. Moreover, the scope of the concept of sustainable development is constantly expanding, new characteristic aspects of modern development are being added, and it is expected that new goals and indicators will be included in the agenda. Sustainable development implies a combination of goals and objectives, the solution of which requires global partnership and cooperation at the level of countries and supranational bodies.

It is very important how, in what form, in what capacity companies present information on compliance with environmental, social requirements and governance standards - ESG, to what extent this information is publicly available, can the availability of information on non-financial indicators reflecting the essence of ESG be a specific example, a guideline, an incentive for those companies that do not yet provide non-financial reporting? Non-financial indicators reflect a wide range of issues - the quality of management, ethical business conduct, the structure and effectiveness of social investments related to personnel development, maintaining health in the workplace, and creating a favorable environment in the territories of presence. These factors, determining the public face of the company, increasingly influence the formation of its business reputation, which has definite economic consequences. Non-financial reporting data confirms the sustainability and responsibility of companies. Attempts to develop approaches to a system of non-financial, integrated reporting have been made in recent years both abroad and in Russia. The relevance of non-financial and integrated reporting is associated with new regulatory requirements placed on large businesses around the world (EU directive on mandatory disclosure of reporting in the field of sustainable development), economic incentives (ESG investing) and the development of new cost thinking to take into account non-financial drivers of business value. Socially and environmentally responsible behavior is the basis for sustainable development of companies. Non-financial reports represent voluntarily disclosed information that reliably and accessible to key stakeholders reflects the main aspects and results of companies' activities related to the implementation of the company's sustainable business development strategy, including all aspects of ESG practices. Non-financial reports provide public evidence of effective reputation management and responsible competition. The National Register of Corporate Non-Financial Reports is a data bank of voluntary non-financial reports of organizations operating on the territory of the Russian Federation.

Both foreign and Russian authors in their studies argue that high-quality disclosure of non-financial information improves investors' perception of the company. Among the works of foreign authors we can name: Iatridis G. E [1], Sierra-García L. et al. [2], Oshika T., & Saka, C. [3], etc. Among the authors of recent studies on the impact of ESG disclosure in non-financial reporting, which reduces the cost of capital for companies and implements best practices in non-financial disclosure include: call the study Ellili N. [4], Lizhao Du et al. [5] Akhter F. et al.[6]. These works highlight the impact of environmental and social ESG in non-financial reporting. Among the Russian authors on the disclosure of non-financial reporting, the following publications can be highlighted: Kuzubova S.A. and Evdokimova M.S. [7], Bataeva B.S. et al. [8], Tkachenko I.N. with co-authors [9] Sheshukova T.G. with co-authors [10], Safonova I.V. [11] and others. It is quite difficult to list all the authors of publications, since over the past 5 years, 1,714 publications have been published on the topic of non-financial reporting, including in connection with ESG aspects, according to the e-library.

For large corporations, non-financial reporting (NFR) has already become inevitable; this is reporting that reflects the creation of value for society represented by stakeholders. The regularity of compilation of NFO updates the issues of its connection with traditional financial reports. Attempts to identify and comprehend these connections lead to the idea of an integrated report that describes the *raison d'être* of an organization, its role in the life of society, as well as its business model from the perspective of the interaction of financial and non-financial factors. IFRS (the organization that developed the world-famous IFRS standards) for the purpose of developing integrated reporting has created a separate division, ISSB (International Sustainability Standards Board), which provides for the consolidation of the existing VRF (Value Reporting Foundation: IIRF, SASB) and CDSB (Climate Disclosure Standards Board). The organization has developed: 1) International Framework for Integrated Reporting, 2021 (translation into Russian from the Committee on Integrated Reporting in Russia); 2) Principles of Integrated Thinking, 2021 (“Integrated thinking principles”, in English); 3) Integrated reporting database. Taking care of business transparency, the regulator Bank of Russia has developed recommendations designed to implement appropriate changes in the corporate policies of companies. The broader goal of these recommendations is to adapt the national economy to the ESG trend of global significance, as well as ensuring national financial stability in new/changing conditions. Thanks to the Guidelines, responsible investment and corporate transparency have grown into an institutional framework that includes basic principles, attributes and criteria. The recommendations formulate an approach to responsible investment, according to which investors should pay attention primarily not to how the company’s activities affect ESG factors, but, on the contrary, how ESG factors in the long term can affect the financial performance of the company itself, in other words - How resilient (including financially) the relevant organization is to risks associated with ESG factors. In addition to the recommendations of the Bank of Russia, in 2021 a number of steps were taken in Russia towards the updating, implementation and methodological support of NFOs: 1) the Federal Law “On Limiting Greenhouse Gas Emissions” was adopted, 2) the Moscow Exchange published “Guidelines for Issuers: How to Comply with Best Practices” sustainable development”, 3) the “Draft of the national ESG reporting standard” prepared by the organization “Business Russia” has been completed.

2 Materials and Methods

In Russia in the National Register of Non-Financial Reports 250 companies, registered reports - 1419, which have been issued since 2000. These include: environmental reports (EO) - 111, social reports (SR) - 388, sustainable development reports (SD) - 548, integrated reports - 372. The authors analyzed companies included in the RAEX rating, included in the national register of non-financial reports and in the library of non-financial reports. The types of non-financial reports by industry, dynamics by year were analyzed, and the characteristics of public and non-public companies were identified in relation to their ESG components.

3 Results and Discussion

The distribution of non-financial reporting by industry (Fig. 1) shows the predominance of industrial companies.

Note: AI-integrated report; ESD report on sustainable development; CO-social report, EO-environmental report

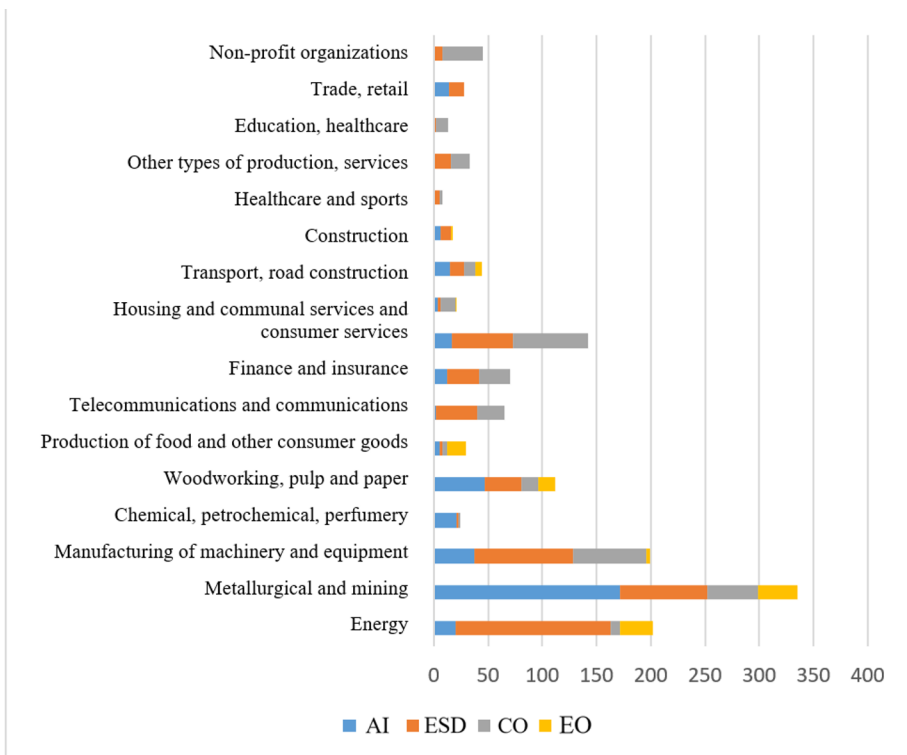


Fig.1 Number of non-financial reports in the library of corporate non-financial reports as of September 2023

Thus, companies in three industries (oil and gas, energy, metallurgy and mining) account for more than half of all non-financial reports. Among consumer sector companies, financial and insurance companies are the leaders in terms of the number of non-financial reporting.

At the same time, integrated reporting is more common among energy chemical and petrochemical companies, as well as companies in the machinery and equipment

manufacturing sector. Social reporting is obviously more common in finance and insurance, education and non-profits.

The distribution of non-financial reporting by year (Fig. 2) showed a general trend of reduction in non-financial reporting, which was observed already in 2021 and significantly intensified in 2022. At the same time, the number of integrated reporting decreased the most, which is a consequence of the general reduction in information disclosure. The NFO continues to publish predominantly large businesses, which account for over 85% of 2022 non-financial reports.

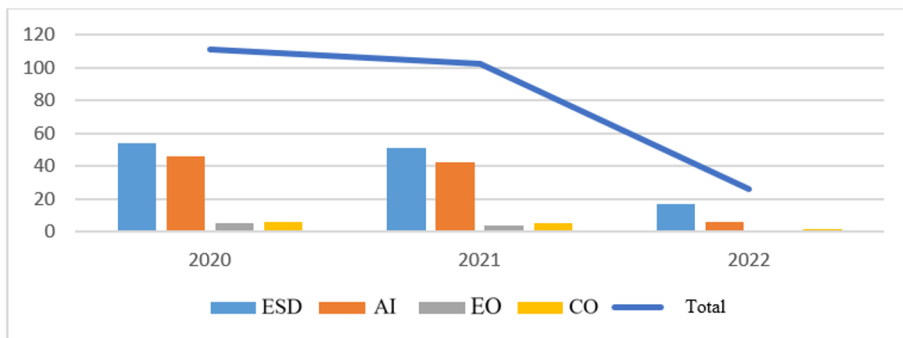


Fig. 2. Types of non-financial reports by year

In practice, only large business companies engage in NFOs; they also report on ESG reports. Small businesses do not yet have the opportunity to do this. This can be seen indirectly at the RAEX webinars that have been constantly held in recent years, where representatives of the same companies - the leaders of the RAEX rating - constantly speak: Polymetal, PhosAgro, MKB, Sberbank and a number of others, essentially representatives of a narrow circle of companies. At such webinars, we do not see, or we see extremely rarely, those who are just asking themselves questions about the beginning of the development of ESG practices, for whom the important question is “where to start?”, or representatives of those who are faced with the problems of implementing ESG practices. According to Business Russia, the concept of sustainable development is used by Russian large companies, but Russian small and medium-sized businesses (SMEs) have not yet joined this trend: there are no standards and ESG assessment systems for them. Small and medium-sized businesses do not have: 1) large back offices, 2) a non-financial reporting system, 3) time and budgets for training, 4) an understanding of why they need integrated thinking and reporting. Such companies need: 1) access to capital, 2) reporting to regulators, employees, shareholders, 3) integrated thinking. This is what integrated reporting provides. It is necessary to take into account the specifics of SMEs when compiling NFIs.

Currently, there are 161 companies in the RAEX ESG ranking. An analysis of the companies (Table 1) of the ranking showed that the majority are non-public companies.

An analysis of the non-financial reporting of the rating leaders showed that the reports contain documentary and methodological (strategies, policies, ESG transformation roadmaps), organizational (profile ESG committees on the Boards of Directors and directorates, description of the functionality of the organization’s divisions) support for the ESG agenda, a description of the list of significant topics in accordance with GRI recommendations, a description of initiatives in accordance with the identified UN sustainable development goals (usually companies choose from 10 to 15 goals), as well as a description of indicators for achieving goals and specific projects and initiatives. Unlike the leaders of the rating, companies at the bottom do not disclose non-financial reporting. At the same time, we are talking about non-public, but quite significant players in the domestic market (companies such as Russian Copper Company, UMMC, Citibank, etc.). The official

Internet portals of these companies contain occasional mention of projects and initiatives that apparently are not systemic in nature.

Table 1 shows that companies of the first level of listing occupy leading positions, both in terms of their overall place in the ranking and in terms of individual components. Non-public companies are generally at the bottom of the ranking, however, there are non-public companies with highly developed practices in the field of environmental protection (for example, Uralkali, Zarubezhneft and TransContainer) and the social component of the ESG agenda (Uralkali, Zarubezhneft , ROSVODOKANAL). It should also be noted that the smallest gap between first-level listed companies and non-public companies is observed in the social component of the ranking.

Table 1. Relationship between RAEX ESG ranking indicators and company characteristics

Characteristics of companies	Group companies (examples)	Number of companies, units	Average by ESG ratings	Average place according to E ratings	Average place according to S ratings	Average place according to G ratings
1st level listing MOEX	Sberbank, NLMK, MMC Norilsk Nickel, Lukoil, PJSC MTS, Yandex, Rusal	41	37	40	41	36
Companies listed on other exchanges	"O'KEY", "Rusagro", X5 Group, Globaltrans	8	67	77	54	45
2nd and 3rd level listing MOEX	«VimpelCom, Magnit, Acron, VSMPO-AVISMA Corporation, TMK, Bashneft, KamAZ, Nizhnekamskneftekhim	22	80	98	78	78
Non-public companies	Rosatom, EVRAZ, Russian Railways, Unicredit Bank, SIBUR Holding, Sveza, Bashkir Soda Company, Transmashholding	90	99	95	77	100

Source: Compiled by the authors

4 Conclusion

Factors of global impact: the coronavirus crisis, realities after February 2022, strict sanctions policy towards Russia, etc. lead to the fact that ESG is increasingly subject to criticism. Many of the ESG goals are controversial and far from universal. responsible investing as disguised communism or well-intentioned but misguided philanthropy that can reduce financial returns. There are those who see ESG as a wolf in sheep's clothing - a cynical ploy by predatory capitalists to call a fund green and charge more for it.

Experts have many complaints about the very definition of ESG. A basic definition of ESG is not yet structured: the rules and regulations governing ESG activities are largely under development. Standards vary in method and purpose, and data and assessments are inconsistent.

There are two other interesting concepts in the economic profile of the ESG system: socially responsible investing (SRI) and impact investing (Impact Investing) - concepts are similar in form, but different in essence. Socially responsible investing includes not investing in companies that manufacture or sell addictive substances (such as alcohol, gambling and tobacco) or other "challenging" products. Preference is given to companies that are focused on social justice, environmental sustainability and clean energy development. Unlike ESG

analysis, which generates ratings, SRI uses ESG factors to apply negative or positive filters to investing. Socially and environmentally responsible practices tend to attract influential investors, meaning that companies can benefit financially from adopting socially responsible practices. Criticism of ESG comes especially actively from the American establishment. Opponents of ESG argue that the introduction of this concept could lead to restrictions on entrepreneurial activity and increased bureaucracy. They believe ESG could cause job losses and lower economic growth. The arguments of opponents of ESG also relate to the fact that they consider the concept to be too politicized. They argue that ESG is used to promote certain political goals and restrict free enterprise. Critics of ESG also point out that evaluating companies against ESG criteria can be subjective and biased, which can lead to unfair results. There are also those in Europe who do not support ESG. However, unlike the US, in Europe the ESG agenda receives wider support, and ESG opponents are in the minority. Some countries and organizations in Europe are actively introducing ESG criteria into their activities, considering them important for sustainable development and the fight against climate change.

In Russia, it is not yet clear how the ESG agenda will be implemented on a large scale. One thing is clear, there is a great desire of the regulator - the Bank of Russia, the Russian Union of Industrialists and Entrepreneurs, other business associations, those companies that are already following this path of implementing ESG to continue to do so. At the beginning of 2023, the Bank of Russia is releasing for public discussion a Model Methodology for ESG Ratings, the purpose of which is to harmonize ESG ratings, which involves ensuring the visibility of ESG ratings, their transparency and comparability with each other. On February 8, 2023, the Public Chamber held a discussion of the Central Bank's report "Model methodology for ESG ratings". The document prepared by the regulator provides numerous references to the processes taking place in the global practice of developing responsible sustainable finance, increasing the environmental friendliness of the financial system, investment processes and financing support, and ESG rating issues. The document notes that the Bank of Russia intends to continue to participate in the work of international organizations, monitor and study current research in the field of sustainable development in order to introduce the best international practices into Russian regulation, taking into account the national characteristics of the financial market.

It is likely that in the future, precisely in Russia, where capitalism has not yet fully formed as a system of capitalist values, the ESG agenda will be accepted as a social good, without regard to financial indicators. This approach, in principle, coincides with the institutional matrix of Russia and its orientation towards humanistic values. After all, the public good and financial interests should logically coincide. There will be no return on investment on a planet rendered uninhabitable by climate change, which we certainly agree with. But in order to understand and, most importantly, manage socially and environmentally responsible development to achieve sustainability, it is necessary to improve the practice of disclosing non-financial reporting, making it open and publicly available to improve dialogue with social partners. Non-financial reporting should not be the preserve of only a select few companies.

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