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Environmental, Social and Governance (ESG)

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Abstract

This paper presents a Literature review of environmental, social, and governance by browsing several articles that researching the Environmental, Social and Governance (ESG). This paper reviews 25 papers published between 2021 and 2022. The stakeholder theory is widely used in research from previous studies on ESG. The 25 papers were published at the Q1 level from Scimagojr. Most studies conducted their studies by using quantitative methods that mostly used secondary data, especially from the Stock Exchange. However, some studies used the qualitative methods. The dominant discussion in these articles is ESG disclosure and also ESG performance. Therefore, future research suggests focusing on topics regarding ESG disclosure or ESG Performance. The next suggestion related to the methods used for future research is a qualitative method, for example, by conducting case studies and direct interviews with sources. The final suggestion for future research that is beneficial to all stakeholders.

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1. Introduction

In recent years, consumers, investors, companies, and stakeholders have shifted their focus towards corporate sustainability, which is increasingly essential information (Melinda & Wardhani, 2020). Sustainability implies continuous and more improved well-being (environmental, social, and economic [ESG]) with the aim of future generations having a better quality of life than the current one (Dicuonzo et al., 2022). The demand for environmental, social and governance (ESG) disclosures has increased by stakeholders which may result in an increase in sustainability reporting including the goals of sustainable development or SDGs (de Silva Lokuwaduge et al., 2022). ESG initiatives broadly consist of environmental, social, and governance factors. First, environmental factors that refer to water use, energy use, conservation of natural resources, pollution, and carbon emissions by companies. It involves assessing environmental risks to the company's revenue and how the company manages those potential risks, for example, companies may face risks associated with wastewater disposal that have the potential to be fined for non-compliance. The second is a social factor that refers to the company's relationship with the community, for example safety, employee health, product safety and rights at work, and social philanthropy. If workplace health and safety is inadequate, it can eliminate risks including compliance costs and labor inefficiencies. Finally, governance factors include board independence, diversity, shareholder rights and information disclosure. Information needed by stakeholders and investors regarding conflicts of interest, the strength of governance structures and accounting transparency (Atif et al., 2022).

ESG objectives are considered increasingly important in the context of an economy that is influenced increasingly by CSR-related issues (Capelli et al. 2021). Kumar & Firoz, (2022) revealed that ensuring a better ESG helps companies to improve their Corporate Financial Performance (CFP), create credibility and a good image, and promote the ethical practices of the company (Kumar & Firoz, 2022). High ESG disclosure companies deserve attention for investors due to their lower risk of financial irregularities. To encourage market development through standard regulation, adequate regulatory policies are needed that can disclose ESG (Yuan et al., 2022). With enabling ESG disclosure, companies develop more efficient businesses. This is because ESG disclosure aims to support stakeholder needs as well as sustainable company development. In addition, if the company has transparent and quality internal management, the company will reduce the risk of fraud and training costs for new employees and improve product quality and productivity per employee (Suttipun &Yordudom, 2021).

There are three significant contributions from this paper. First, this paper presents review literature that discusses Environmental, Social, and Governance (ESG), which is helpful for subsequent researchers. Secondly, this paper is also useful for stakeholders, especially those related to companies that implement Environmental, Social, and Governance (ESG), which is usually related to investment. Finally, the results of this literature review can increase perspectives related to environmental, social and governance not only for investors but also for regulators or the government.

This research is expected to answer four research questions. They are: (1) What variables are commonly used in environmental, social and governance studies? 2) What types of variables (independent, dependent, mediating or moderation are used in environmental, social and governance studies? (3) What theories are used in environmental, social and governance studies that provide conclusive or inconclusive results? (4) What are the trending results leading to future research?. This paper describes a literature review of 25 papers about Environmental, Social and Governance (ESG) referring to journals at the Q1 levels. This paper describes the research methods, theories, data, variables, and research results revealed at the following stage. Furthermore, the paper explains related to the theory that is predominantly used by researchers and outlines topics related to environmental, social, and governance. Finally, this study reveals the conclusions of the paper and also suggestions for future research.

2. Literature Review

Table 1. The road map of previous research on Environmental, Social, and Governance

No	Researcher	Method/Analysis	Theory	Data	Variables	Result
1	(Wong & Zhang, 2022)	Quantitative / Regression	Signaling Theory and Resource Based Theory	Data from January 2007 to December 2018 on publicly traded US companies.	Stock performance, adverse media coverage of environmental, social and governance (ESG) issues, and Corporate reputation risk (CRR)	Types and methods of ESG disclosure, company characteristics, reputation status of the industry, and companies that explain the difference in reactions from investors to 'bad' news
2	(Landi et al., 2022)	Quantitative / Regression	Window dressing Theory	Data from 2014-2018 consists of 222 companies listed on the Standard & Poor's USA index.	ESG and corporate risk perception	ESG valuation increases the company's risks and shows uncertain conditions among investors
3	(Gurol & Lagasio, 2022)	Quantitative / Panel and OLS Regression	Resource dependence, Stakeholder, legitimacy, Institutional, and agency theory	35 European banks from 12 different European countries are listed on the EURO STOXX 600.	Female board ratio, independent board ratio, average board age, Board size, Bank's ESG disclosure score, Bank's E, S, and G disclosure score.	Independent director ratio and Women on Board ratio and Board size, have positive and significant relationship to environmental, social, and governance (ESG). ESG disclosure relates to the profitability of banks.
4	(Dicuonzo et al., 2022)	Quantitative / Regression	Institutional Theory	listed firms operating in the industrial sector is a sample from Italy, Spain, Germany, France, the	Innovation, and ESG performance	ESG practices relate positively and significantly to innovation. Companies that have more investment in patents and R&D have an effect on better ESG performance.

No	Researcher	Method/Analysis	Theory	Data	Variables	Result
				United Kingdom, and the USA.		
5	(Atif et al., 2022)	Quantitative / Regression	Corporate life-cycle theory,	9811 observations the period of 2006 to 2015 in USA	ESG disclosure, cash holdings in the introduction stage of the firm life cycle, cash holdings in the growth stage of the firm life cycle	ESG disclosure has a negative and significant effect with cash holdings at the growth, introduction, decline stages, and lower cash holdings are associated with positive cash values and higher corporate performance.
6	(Abdi et al., 2022)	Quantitative / Regression	Stakeholder, slack resources, resources based, Fama French, trade off theory	38 airlines worldwide from 2009 to 2019	ESG initiatives, firm performance, firm value, size, and age	Company participation in ESG activities has a positive and significant effect on a better level of financial efficiency. Sustained disclosure relates to firm value, and performance is moderated by firm size in the air transport industry
7	(Bofinger et al., 2022)	Quantitative / Regression Model	Stakeholder Theory	a sample of 1,817 USA firms from 2004 to 2017	CSR, firm’s miss valuation, overvaluation, undervaluation, information asymmetry, ESG mis valuation	The involvement of the company's ESP that affects miss valuation, the market's increased valuation at its actual value
8	(Yuan et al., 2022)	Quantitative / Regression	Information asymmetry theory and stakeholder theory.	a sample from Chinese listed firms the period of 2010 to 2020.	ESG disclosure, financial irregularities, will be increased and diluted, strict regulation, careful supervision.	ESG disclosure reduces the risk of financial irregularities in companies and can reduce information asymmetry. the effect of inhibiting ESG disclosure on financial irregularities is significantly stronger with better internal and external controls, compared to poor supervision conditions.

No	Researcher	Method/Analysis	Theory	Data	Variables	Result
9	(Brogi et al., 2022)	Quantitative/ Regression	Stakeholder theory	107 large USA insurance companies from 2010 to 2018.	ESG awareness, firm's credit risk	Larger, more profitable, and more able-to-repay debt-repaying insurers showed the highest level of ESG awareness.
10	(Gangi et al., 2022)	Quantitative / Pearson' corellation	-	6630 monthly funds observations from February to July 2021	-	The differences among assessors, regardless of the difference between the funding mission and the individual ESG pillars.
11	(Litvinenko et al., 2022)	Qualitative	-	-	-	Developed digital methodologies and indicators for evaluating the activities of public extractive enterprises, taking into account the principles of ESG and the Sustainable Development Goals (SDGs), allowing increasing transparency and trust in the activities of the local population.
12	(Arvidsson & Dumay, 2022)	Qualitative	-	Case Study	-	The quality of ESG information is constantly improving, and its performance is stable in Sweden.
13	(Ashraf et al., 2022)	Quantitative / Regression	stakeholder, social responsive, institutional theory	2,064 Micro Finance Institutions with period 2007 to 2018 from 94 countries.	-	MFIs from countries with higher human development and greater socio-economic freedom, can comply with superior ESG policies
14	(Bhandari et al., 2022)	Quantitative / Regression	Stakeholder Theory	manufacturing firms from 1992 to 2019	-	Companies that have environmental friendliness in relation to policy

No	Researcher	Method/Analysis	Theory	Data	Variables	Result
				from a dataset of USA		makers and managers may have the first judgments about gaps in ecological footprint
15	(Li et al., 2022)	Quantitative / Regression	-	3 of China's mainstream raters over a period 2015–2020	ESG and excess return	ESG index can increase higher returns and lower risks
16	(Alkaraan et al., 2022)	Quantitative / Regression	Agency, TBL, stakeholders, reasoned action theory		ESG CTTI4.0 and financial performance.	Disclosure of Corporate Transformation Towards Industry 4.0 (CTTI 4.0) effect on financial performance is moderated by environmental, social and governance (ESG) practices.
17	(D'Hondt et al., 2022)	Quantitative / Regression	-	9,826 retail investors from Belgian online the period of January 2003 to March 2012	-	Each component of ESG needs to focus on separately because the three ESG factors are not homogeneous.
18	(DasGupta, 2022)	Quantitative / Regression	Prospect and Stakeholder theory	Data from 2010 to 2019 with 24,390 company year observations from 27 countries (17 developed countries and 10 developing countries).	-	Financial performance has a positive effect on the company's ESG performance.
19	(De Masi et al., 2021)	Quantitative / Regression	Kanter's, critical mass, upper	a sample of the FTSE-MIB listed in Italy companies from 2005 to 2017.	Disclosure of ESG, Council with three women members environmental, social and	The critical mass of female board members positively influenced each component of the ESG score, with

No	Researcher	Method/Analysis	Theory	Data	Variables	Result
			echelons theory		governance components of the ESG score	women achieving governance scores with the highest contribution.
20	(Duque-Grisales & Aguilera-Caracuel, 2021)	Quantitative / Regression	Resource Based and Institutional theory	104 multinationals companies from Brazil, Chile, Colombia, Mexico, and Peru the period of 2011 to 2015.	ESG, Financial Performance, geographic international diversification	The relationship between ESG scores is negative to FP. Financial leeway and geographical international diversification moderated the relationship between ESG dimensions and FP of the company.
21	(Clementino & Perkins, 2021)	Qualitative	Resource dependence, stakeholder, Institutional theory	Companies operating in Italy conducted semi-structured interviews	-	Managers' perceptions of the instrumental "business value" of internalizing and adjusting to ESG ratings are shaped by the heterogeneity of responses to a large extent
22	(Burke, 2021)	Quantitative / Regression	Attribution, agency, agenda setting theory	5864 firm-year observations from USA public companies from 2007 to 2015.		The board uses the information provided by the media on ESG issues to reduce the asymmetry of information around external perceptions of action.
23	(Maama, 2021)	Quantitative / Regression	Institutional Theory	Annual reports of 67 banks in 5 countries in West Africa consist of 602 observations.	Socio-economic factors, ESG accounting practices, political environment, company specifics such as age, asset size, leverage,	The GDB relates positively and insignificantly to ESG reporting, which suggests that economic measures are irrelevant for ESG calculations. Age, size, and firm

No	Researcher	Method/Analysis	Theory	Data	Variables	Result
					value, nationality and profitability.	value have a positive and significant effect on ESG accounting, while leverage and net profit margin have a negative effect on ESG accounting
24	(Chairani & Siregar, 2021)	Quantitative / Regression	Agency, legitimacy, resource based, and stakeholder theory	680 observations from ASEAN 5 (Indonesia, Singapore,Malaysia, Thailand and Philippines) period 2014–2018	Enterprise risk management (ERM) on financial performance, ESG performance and enterprise value	ERM has a positive and significant relationship to financial performance and firm value. ESG also moderates the relationship between ERM and corporate value. ESG performance on company performance in sensitive industries.
25	(Rabaya & Saleh, 2021)	Quantitative / Regression	Cognitive cost, stakeholder theory	2,057 observations listed in South Africa	ESG disclosure, integrated reporting and company competitive advantage	ESG disclosure has a positive relationship to competitive advantage at the company level. Implementation of the IR framework strengthens the link between competitive advantage and corporate ESG disclosure.

3. Results

Table 2. Article published in Reputable Journal

No	The name of the Journal	Journal Type	Total	%
1	Business Strategy and The Environment	Q1	4	16
2	Meditari Accountancy Research	Q1	3	12
3	Journal of Business Ethics	Q1	3	12
4	Journal of Cleaner Production	Q1	3	12
5	Corporate Social Responsibility and Environmental Management	Q1	2	8
6	Environment, Development, and Sustainability	Q1	2	8
7	Finance Research Letter	Q1	2	8
8	The British Accounting Review	Q1	1	4
9	Social Responsibility Journal	Q1	1	4
10	Journal of Banking and Finance	Q1	1	4
12	Accounting and Finance	Q1	1	4
13	Economic Modelling	Q1	1	4
14	Technological Forecasting & Social Change	Q1	1	4
Total			25	100

From Table 2, it can be seen that these articles were published in Q1 from the Scimagojr. There are four (16%) articles on Business strategy and the environment. Meditari Accountancy Research, Journal of Business Ethics, and Journal of Cleaner Production consist of three (3) papers (12%). Two (2) papers (8%) from journals include Corporate Social Responsibility and Environmental Management, Environment, Development and Sustainability, and Finance Research Letter. Finally, the other is only one (1) paper (4%).

Table 3. The theory used in the previous research

No	Theory	Total	% Total
1	Stakeholder Theory	12	26,09
2	Institutional Theory	6	13,05
3	Agency Theory	4	8,72
4	Resource Based Theory	3	6,53
5	Resource Dependence Theory	2	4,36
6	Legitimacy Theory	2	4,36
7	Signaling Theory	1	2,17
8	Attribution Theory	1	2,17
9	Agenda Setting Theory	1	2,17
10	Social Responsive Theory	1	2,17
11	Information Asymmetry Theory	1	2,17
12	Slack Resource Theory	1	2,17
13	Fama French Theory	1	2,17
14	Trade off Theory	1	2,17
15	Corporate Life Cycle Theory	1	2,17
16	Cognitive Cost Theory	1	2,17
17	Window Dressing Theory	1	2,17

No	Theory	Total	% Total
18	Kanter's theory	1	2,17
19	Critical mass theory	1	2,17
20	Upper echelons theory	1	2,17
21	Prospect theory	1	2,17
22	Triple bottom line theory	1	2,17
23	Reasoned action theory	1	2,17
	Total	46	100

It can be seen from Table 2 the distribution of theories used in the previous research that investigated Environmental, Social, and Governance (ESG). There are twelve (12) articles (26,09%) that are based on stakeholder theory, six (6) articles about institutional theory (13,05%), and 4 articles (8,72%) on agency theory, three (3) articles (6,53%) on resource-based theory, two (2) articles (4,36%) on resource dependence theory and legitimacy theory. In other articles, only one article (2,17%) form others theories. It can be seen from Table 2 that the previous studies mainly used stakeholder theory. The following is an explanation related to the stakeholder's theory:
Stakeholder theory can provide a meaningful interpretation of the financial benefits of a company (Driver & Thompson, 2002). Furthermore, stakeholder theory is one theory that has an approach that focuses on the relationship between companies and all bodies involved in their business. This theory directly relates the issue of sustainability to the extent to which companies consider or ignore benefits for shareholders (Campbell, 2007). On this basis, the assessment of ESG developed as a representation of the company's level of integration on sustainability issues (Birindelli et al., 2018). By introducing ESG standards into corporate financing strategies, stakeholders become the main driver and ESG is the main metric for corporate social responsibility (Diez-Cañamero et al., 2020). This has emerged in response to the growing need to link sustainability initiatives with the company's interactions with its stakeholders (Diez-Cañamero et al., 2020). In this sense, according to Gillian et al. (2021), ESG initiatives can drive value in two ways: first, an increase in shareholder value as a result of a higher level of cash flow for the firm (e.g., a higher reputation which helps in selling products to customers better, highly trained employees who can increase productivity for the company, etc.), and second, maximize shareholder utility arising from owning shares in a sustainable company.

Most of these studies discuss Environmental, Social, and Governance (ESG) disclosure and ESG performance as well as other topics such as ESG principles, ESG issues, and so on. Here's an article that talks about ESG disclosure (Wong & Zhang, 2022; Gurol & Lagasio, 2022; Atif et al., 2022; Yuan et al., 2022; Ashraf et al., 2022; Rabaya & Saleh, 2021; De Masi et al., 2021). The second topic that is predominantly discussed is ESG Performance (Dicuonzo et al., 2022); Chairani & Siregar, 2021; Duque-Grisales & Aguilera-Caracuel, 2021; Arvidsson & Dumay, 2022, DasGupta, 2022). Other topics include ESG principles (Litvinenko et al., 2022), ESG ratings (Clementino & Perkins, 2021; Gangi et al., 2022; Li et al., 2022), ESG initiatives (Abdi et al., 2022), ESG issues ((Burke, 2021), ESG footprint (Bhandari et al., 2022), ESG assessment (Landi et al., 2022), ESG reporting (Maama, 2021) dan ESG (Bofinger et al., 2022, Alkaraan et al., 2022, D'Hondt et al., 2022).

The previous studies used the quantitative method. They used primary data from the stock exchange from one country or more than one country. The data from United States of America (USA) such as (Wong & Zhang, 2022; Landi et al., 2022; Atif et al., 2022; Bofinger et al., 2022; Brogi et al., 2022; Bhandari et al., 2022; Burke, 2021;); Italy (De Masi et al., 2021); UK (Alkaraan et al., 2022); Belgian (D'Hondt et al., 2022); Chinese (Yuan et al., 2022, Li et al., 2022); South Africa (Rabaya & Saleh, 2021). The researchers used more than one country, for instance, 12 different European countries (Gurol & Lagasio, 2022); France, Germany, Italy, Spain, the United Kingdom and the USA (Dicuonzo et al., 2022); worldwide (Abdi et al., 2022); Eurozone (Gangi et al., 2022); 94 countries (Ashraf et al., 2022); Brazil, Chile, Colombia, Mexico and Peru (Duque-Grisales & Aguilera-Caracuel, 2021); 27 countries (DasGupta, 2022); countries in West Africa (Maama, 2021); ASEAN 5 include Indonesia, Malaysia, Philippines, Singapore and Thailand (Chairani & Siregar, 2021). However, (Litvinenko et al., 2022); (Arvidsson & Dumay, 2022); (Clementino & Perkins, 2021) used qualitative methods in their research. They used a case study and semi structured interview.

4. Conclusion and Suggestions

This paper presents a literature review on Environmental, Social, and Governance (ESG). Previous studies showed a variety of results related to ESG disclosure, ESG valuation, ESG initiatives, ESG issues, ESG footprint, ESG activity, ESG index, ESG principles, ESG scores, ESG performance, ESG reporting and ESG ratings. The two dominant topics about Environmental Social and Governance include ESG disclosure and ESG performance. They also used stakeholder theory. They also used secondary data from Stock Exchange. However, the researchers also used qualitative methods in their study.

There are three suggestions for future research. The first suggestion is that future research should focus their research on ESG disclosure or ESG Performance. The next suggestion is that future research can use qualitative methods as by conducting a case study, or direct interviews with sources. Finally, future research should be focusing on consumers, investors, stakeholders and policymakers.

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