

The Influence of ESG-concept on the Reputation of High-technology Enterprises

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Abstract— The term 'sustainable development' had appeared in the 1980s. However, in Russia, until recently, it has been used mainly in academia, primarily by scientists dealing with environmental issues. Now we can state that the interest regarding this subject is growing day by day. The government is playing increasing role in promoting the idea of sustainable development. Russian business especially large high-technology companies, in turn, follow modern trends and declare their commitment to ESG principles, which in a broad sense represent the implementation of the sustainable development concept in commercial activities. Considering the requirements of the ESG-agenda in the formation of a company's communication strategy particularly in a digital environment makes it possible to improve the company's reputation with various stakeholder groups, primarily the government and society. Whereas refusal from such course of conduct may result in serious damage to both the corporate brand image and financial results of the company. The article examines the impact of ESG factors on the building of positive reputation among normative and diffuse stakeholder groups. The specifics of the use of Russian and foreign tools for monitoring non-financial performance of business units are determined. The dynamics of ESG indices changes as well as quantitative and qualitative characteristics of the degree of commitment to ESG principles of the largest Russian telecommunication companies are analyzed. Based on this analysis, the authors propose directions for introducing ESG-agenda in the communication strategy of large high-technology corporations particularly in a digital environment.

Keywords—*corporate reputation, communication strategy, sustainability, sustainable development, ESG*

I. INTRODUCTION

For modern Russian businessmen, following ESG agenda is not only and not so much a tribute to fashion, but rather a deliberate necessity aimed at maintaining the enterprises' competitiveness in the context of digitalization. This agenda is being updated due to the influence of both external and internal factors. Among the external factors, we should especially note the state policy, which has as a priority the transition to sustainable development. In addition, more and more often adherence to ESG principles is becoming a necessary condition for gaining access to financial resources, especially in developed financial markets. Internal factors that have influenced the change in approaches include the emergence of a new generation of millennial employees for whom issues related to corporate social responsibility are really important, as these people want to work for companies that share and support corporate social values. According to a 2021 study by The RepTrak Company (formerly the

Reputation Institute), high ESG scores are 1.8 times more important to people aged 26-40 than to older people in deciding whether to support a company. For Generation Z (18–25-year-olds), ESG is also the most important issue in determining how to relate to a company. And besides, it is this age group of consumers who easily use new media to convey information and their opinions, which means that ignoring their position for any business creates weighty reputational risks [1].

The concept of sustainable development, which originated in the 1970s, was a response to the problems of societal development encountered by the world community due to limited and exhaustible natural resources and the dramatic deterioration of the environmental situation. The first respondents to these problems were such international non-governmental scientific organizations as the Club of Rome with its report "The Limits to Growth", as well as the World Commission on Environment and Development (WCED), known as the Brundtland Commission, named after its chairman Gro Harlem Brundtland. It was the Brundtland Commission that coined the term "sustainable development", meaning development that meets the needs of the present without compromising the needs of future generations. [2].

In 1980-90s of the last century there was an active discussion about the concept of sustainable development and its implementation in companies focused on long-term development by taking into account their impact on the economic, social and environmental spheres. In this connection, this business approach was called environmental, social, and corporate governance (ESG). It should be emphasized that the implementation of the ESG concept is not a transformation of a company's CSR policy. ESG is a set of factors assessing the company's actions with regard to environmental protection, management and social activities.

At present, the ESG agenda has moved from the sphere of scientific discussions to the practical sphere. According to a Morgan Stanley report, securities of companies that care about the environment and work for the public good are becoming more and more in demand in the global market [3]. The number of ESG-funds has increased 3.5 times since 2020, and their total assets amount to \$135 billion. According to the Morningstar analytics company, "during 2020, flows into sustainable open-end and exchange-traded funds available to U.S. investors reached \$51.1 billion". [4]. A Norwegian pension fund has completed its exit from investing in oil assets, even though the country continues to be an oil supplier [5]. Trends are such that in the near future

global funds will stop investing in companies that ignore the principles of sustainable development.

As for Russia, one of the pioneers of the "green agenda" is Sberbank, which, when considering the financing of projects with a significant carbon footprint, carefully examines possible environmental risks, and helps clients to shape projects in accordance with ESG standards and principles. First and foremost, Sberbank expects interest in ESG lending from companies engaged in the extraction and export of natural fertilizers and raw materials, as it is the exporters who first of all pay attention to their ESG rating. Among those who received sustainability-linked loans in 2021 were such major exporting companies as Uralkali, Polymetal, SIBUR, Sistema and Aeroflot. In addition to "green" loans Sberbank offers ESG-loans, the interest rate of which is linked to the performance of such criteria as reuse of recycled materials, filing ESG-reporting. Depending on the achievement of these criteria, the rate may go down or up. Sistema JSFC is the first company that received a credit line from Sberbank with binding interest on loans to the dynamics of sustainable development indicators. The credit rate directly depends on the success of measures aimed at changing the ESG culture within the company, mentioned in the roadmap [6].

Large high-tech companies cannot afford to be aloof from the processes taking place. Alexandra A. Egorova et al. rightly point out that the ESG agenda has concentrated primarily on companies from the industrial and mining industries. It is so, because the trend of sustainable development began with the introduction of approaches to environmental risk management in these sectors. However, in the modern economy, not only the trend of green companies is gaining relevance, but also a trend of companies with good corporate governance and social responsibility which they demonstrate, particularly in the digital environment [7]. For high-tech companies, all three components of ESG are critical.

II. LITERATURE REVIEW

As mentioned above, following modern companies for ESG-standards is not only the result of their voluntary choice. The pressure exerted in this direction by the state and other influential stakeholders sometimes leaves no other solution than to proclaim adherence to the ESG-agenda.

However, numerous studies by both local and foreign scientists have proven that the assumption of social responsibility obligations can bring the enterprise not only additional costs, but also significant benefits.

So Aouadi and Marsat, explored the relationship between ESG controversies and firm market value and proved, by the case more than 4000 firms from 58 countries, that such a connection exists. Moreover, this relationship is more significant and noticeable for large and important from a public perspective company, that is, those companies that are the focus of public attention [8]. This positive effect on both share price and overall market value of the company was noted by Kim et al., Nirino et al., [9, 10], as well as on the financial results of their activities [11]. Since 2023 every company listed on the London Stock Exchange will be legally obliged to submit annual plans to improve its environmental performance.

A fact worth mentioning is that the firms with better ESG performance tend to be more engaged in reporting Corporate transformation toward Industry 4.0 along with better financial performance simultaneously [12]. Inigo and Albareda pay attention to the increased innovativeness of companies following the ESG-agenda [13]. Moreover, such companies are more actively involved in strategic partnerships [14]

The main thing about the listed benefits is that the reputation of the company is an important intangible asset. And it is the company's reputation that is currently the most important resource capable of providing a sustainable competitive advantage.

According to research The RepTrak Company, ESG is the single most important determining factor that builds public trust. ESG is transforming to an urgent need for all companies looking to improve their operation, performance and consequently their reputation; companies need to set ESG as a priority in their business strategy and as part of their risk mitigation plan [1]. That's why The RepTrak Company in assessing corporate reputation began to measure the ESG indicator, which reflects the public's perception of companies' activity in this direction.

III. RESEARCH

According to the aforementioned study by The RepTrak Company, it was found that ESG factors are firmly in third place in the willingness of the general audience to support a company in a crisis situation. Taking into account modern tendencies of society development it is possible to assert with confidence that proactive attention to ESG-factors can serve as a safety cushion while appearing of crises of any kind and implementation of anti-crisis strategy of a company, because not a single company is secure from crises, and paying attention to this direction will help to protect business in difficult situation.

This is why companies need to be clear that this aspect is crucial when building long-term and trusting relationships with their stakeholders. However, according to the same study, a high level of reputation does not always ensure a company's high ESG performance. For example, only four of the top 10 reputational leaders in the 2021 The Global RepTrak 100 ranking score highly in this area as well [1].

And the problem here is precisely related to the lack of systematic and high-quality communications between the business and its target audiences particularly in a digital environment. It is necessary to communicate effectively to stakeholders not just about the company's activities in this area (for example, the launch of numerous social programmes), but also about its results.

Within the system of corporate social responsibility categories, ESG is an element of an already established fiduciary strategy in the form of the expectation of responsible investors. This implies that the decision to invest in the business is made by investors on the basis of an assessment of the company's contribution to society. The completeness of the ESG presentation now helps to explain the mission and vision of the company. This is becoming increasingly important, especially in cases where investors do not have the opportunity to thoroughly understand the company's operations. Demonstrating the ESG position makes it possible to convey to investors (and other

stakeholder groups) an understanding of the challenges faced by the company and how they are being addressed (from the board of directors to local operations). In other words, sustainability goals are no longer just a vector of development that makes it easy to set up a business, but are becoming a universal communication language for open engagement with stakeholders, as companies begin to understand that most reputational risks arise from a passivity in communicating them to their target audiences. In other words, businesses need to demonstrate an interest not only in making profits, but also in caring for the environment and their employees. A study on brand credibility during the Edelman pandemic, for example, showed negative consumer attitudes towards businesses that prioritise their own profits over protecting people [15]

Ratings and rankings are objective indicators of responsible company performance. Ratings work with reputational programmes, are aimed at the long-term perspective and are tools for dealing with potential economic effects, while rankings are a kind of PR tool and primarily reflect the current state of operations, working on the image of companies. And while for such stakeholders as consumers and the diffusion group it is important to show how the enterprise is working now, when working with regulatory groups it is also necessary to show the perspective, i.e. how the enterprise is ready to work in the future, while maintaining what it is at the moment.

ESG ratings and rankings based on an independent assessment of the performance of companies are produced by specialised agencies, the best-known being S&P, Sustainalytics, MSCI, CDP, ISS and RAEX. The ratings are similar in three main areas - reliance on the E, S and G key blocks and analysis of publicly available data on companies. The assessment is based on a sum of indicators that include objective independent opinion on the state of a company's ESG risk management system, forecasting of social, environmental and corporate governance risks, investment attractiveness, use of new opportunities for the sustainable development of companies. At the same time, there are no unified data sources, generally accepted standards and universal methodology; therefore, the system of rating indices and indicators assessment by different agencies differs significantly due to different methodology of information collection and focus on different key indicators. Most companies use global standards adopted by international rating agencies. The difference is in the measurement scales, and hence in the calculations. For example, Sustainalytics ESG Risk Rating is a quantitative scale of scores received by a company in a particular area, while MSCI's scale is based on grades from "AAA" to "CCC".

For example, one of the most rigorous ratings from S&P Global ESG Scores (SAM) is calculated on a 100-point scale, and the company obtains the data it analyses directly from companies and relies on analysis of a wide range of sustainability issues. This agency typically works directly with the company to conduct the ESG rating, and the analysis is based on sustainability criteria, taking into account companies' exposure to long-term industry-specific ESG risks and their ability to manage them. This rating is the clearest reflection of the situation and allows for verification of data.

It is important to mention that the impetus for the introduction of ESG practices in Russia has come from the requirements of foreign counterparties, primarily for large businesses interested in interacting with foreign investors, lenders and buyers. As a consequence, companies form various kinds of reporting to achieve specific goals in the environmental, management and social policy areas, also the desire to enter ESG ratings and the demonstration of openness in the work of the business structure. This is particularly important for companies relying on foreign capital and associated with the circulation of shares on world stock exchanges. The push by foreign governments and unions in the "E" part of the ESG sphere for Russian business is realised in the introduction of cross-border carbon regulation and the implementation of the European Green Deal. The auditing firm KPMG estimates that Russian exporters would spend around EUR 30 billion on tax payments alone between 2025 and 2030, and under the worst-case scenario the tax could rise to EUR 50.6 billion by 2030 [16]. In Part S, the German Supply Chain Act, which will come into force on 1 January 2023, will be a serious obstacle to the development of "non-responsible" businesses. It aims to eradicate human rights and environmental abuses not only by the companies themselves, but also by their partners, contractors and the entire supply chain.

These trends have prompted Russian research and auditing bodies to produce Sustainability Indices. For example, every year since 2014, the Russian Union of Industrialists and Entrepreneurs (RSPP) has developed a set of tools for the independent assessment of companies' sustainability and social responsibility performance. The main tools are the Responsibility and Openness and Sustainability Vector indices. The annual independent audit of the RSPP indices results by Grant Thornton FBK helps companies to catch up with international standards. Since 2019, Moscow Exchange has been calculating MosExchange stock ESG indices - RSPP Responsibility and Openness and Sustainability Vector, whose calculation base is formed considering the results of the RSPP sustainability indices.

Regarding the overall interest in the topic of ESG, the dynamics of the publication of materials on the issue can serve as a demonstration of the active integration into the social reality. According to the monitoring of Russian media coverage from December 8, 2020 to December 8, 2021, there is a clear progression of interest in ESG coverage (Fig. 1). The largest number of ESG-related posts in 2021 was registered in June and in late November-early December. The growth in the number of publications demonstrates the demand for the topic in the public discourse and the active participation of the diffuse stakeholder group in the broadcasting of ideas to the audience.

If we turn to the ESG assessment of high-tech telecommunications companies, compared to previous years, there is a clear trend towards an increase in publicity capital and the implementation of openness in operations.

Mobile operators are actively integrating into the ESG agenda, focusing on promoting digitalisation of the economy and social sector, implementing an environmental agenda by introducing energy efficient technologies and services that reduce the environmental impact of both their own infrastructure and offering relevant solutions to B2B customers in the development of good corporate governance and responsible supply chain practices.

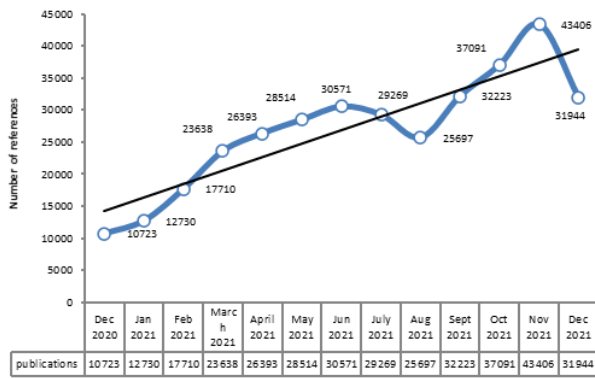


Fig. 1. Publications touching on ESG for the period Dec. 2020 - Dec. 2021

According to research by RAEX-Europe PJSC VimpelCom (Beeline) has become the leader among technology-based telecommunications companies in the ESG ranking, moving up one notch from 2020. At the same time, Mobilnye Telesistemy PAO (MTSS) has seriously lost ground, moving up from the 3rd place compared to 2020 to the 10th (Table 1).

TABLE I. ESG RANKING OF RUSSIAN COMPANIES 2022 AS OF 15.02.2022

Group of companies / company	ES-rank	E-rank	S-rank	G-rank
PJSC VimpelCom (Beeline)	9	21	7	15
Mobilnye Telesistemy PAO (MTSS)	10	41	8	2
Rostelecom	18	15	25	28
Megafon	73	109	71	68

Source: https://raexpert.eu/esg_corporate_ranking

But according to the ESG ranking of the National Rating Agency (NRA), only Mobilnye Telesistemy PAO (MTSS) entered the non-financial sector block.

Tele2 Russia is not among the top 100 companies in the ranking. At the same time, media monitoring (Fig. 2. Table 2) for the period 2019-2021 showed that the number of publications covering social responsibility doubled in 2021. is seriously losing to its direct competitors, despite its public activity.

A demonstration of the active formation of ranking indicators by various enterprises is the construction of a public image of the company by increasing publicity capital. An example of this is OOO T2 RTK Holding (Tele2 Russia).

For example, PJSC VimpelCom (Beeline) and Tele2 Russia roughly doubled the number of publications in the media on the implementation of sustainable development principles and compliance with the ESG agenda. With the difference that Tele2 Russia focused on coverage of social.

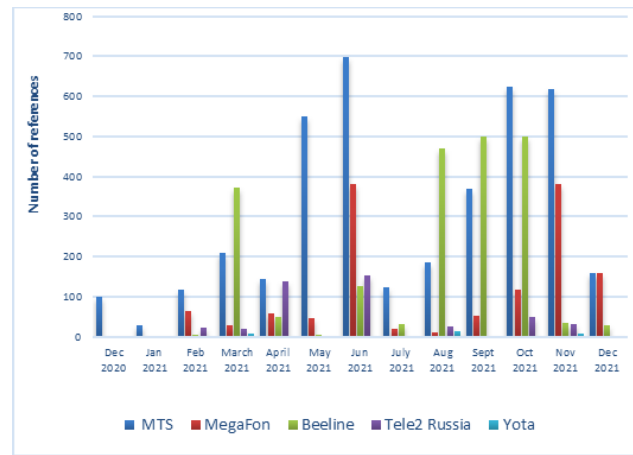


Fig. 2. Monitoring of ESG-oriented publications of high-tech telecoms companies in Russia for the period Dec 2020-Dec 2021

TABLE II. MONITORING OF ESG-ORIENTED PUBLICATIONS OF HIGH-TECH TELECOMS COMPANIES IN RUSSIA FOR THE PERIOD DEC 2020-DEC 2021

Date	MTS	MegaFon	Beeline	Tele2 Russia	Yota
Dec 2020	99,1	3	0	2	0
Jan 2021	30	1	1	0	0
Feb 2021	117,1	65	5	22	0
March 2021	209,4	30	372,5	20	9
April 2021	144,1	58	48	138	3
May 2021	549,3	45	5	0	0
Jun 2021	697,1	380,1	127	153,3	0
July 2021	123,1	21	31	2	0
Aug 2021	184,2	11	469,3	27	13
Sept 2021	368,3	51,1	500,3	0,1	1
Oct 2021	624,4	117	500	48	0
Nov 2021	619,4	381	35,3	31,3	7
Dec 2021	159,1	160	29,1	3,1	0
Total	3924,6	1323,2	2123,5	446,8	33

The increased demand for ESG encourages Russian companies to pay more attention to the principles of sustainable development. For example, many large industrial companies have introduced divisions or individual specialists in the organizational structure that oversee the area of ESG.

At present, the demand for ESG ratings remains only among large exporting companies, which are placed in the West and receive green and syndicated ESG loans from foreign banks. In Russia, the prevalence of such ratings is low due to the lack of regulatory requirements. Therefore, for the time being getting an ESG rating remains the image part, and companies will focus on green and social bond issues. For example, one of the world's leading power engineering companies, Power Machines JSC, was included in Forbes' ranking of Russia's best employers, earning 'Silver' status. When forming the rating and evaluating the participating companies, emphasis was placed on ESG practices. This is reflected, among other things, in relationships with a diffuse

group of stakeholders in the form of publishing materials about the company (Fig. 3)

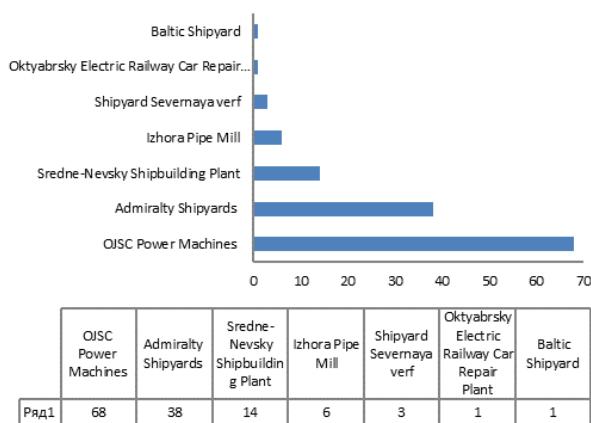


Fig. 3. Monitoring of ESG-oriented publications of major industrial enterprises in St Petersburg, Russia for the period Dec. 2020 - Dec. 2021

As noted above, ratings and rankings are compiled on the basis of criteria selected by research companies. For example, the ESG ranking of the National Rating Agency was formed considering NRA's long experience in assessing environmental, social and governance components in the activities of Russian companies, which allows to consider the peculiarities of ESG criteria development in Russia when assessing the ESG profile. To calculate the ESG ranking of non-financial companies, differentiated sets of indicators were used for the industrial and consumer sectors, including 80 and 68 indicators, respectively. This number of indicators was formed based on the possibility to assess them on the basis of information from open sources, assuming the reliability of non-financial information and the possibility of its correct interpretation. The National Rating Agency uses cluster analysis to assign companies to ranking groups, making the final distribution of companies objective and less dependent on expert judgement.

RAEX-Europe assigns classic credit ratings on an international scale, as well as non-credit ESG (environmental, social & governance) ratings. The company develops analytical products based on the criteria developed to rate European companies and Silk Road countries.

And while the National Research Company uses universal criteria, RAEX-Europe uses industry-specific factors and the expected impact of the risk factor on the company related to country risk and industry risk in its assessment. Thus, while the approaches and the scores differ, the criteria are objective and equitable, but not comparable. Therefore, even if a company supports the principles of sustainable development and implements the ESG agenda, its activities are not always reflected in the ratings.

IV. CONCLUSIONS

The obtained data suggest that the influence of companies' ESG activism on corporate reputation building is growing which they demonstrate, especially in the digital environment. However, today it is no longer enough for businesses to focus on creating individual social initiatives; stakeholder groups expect them to be comprehensively involved in addressing issues that are relevant to society.

It is an undeniable fact that adherence to the ESG agenda is not just a matter of a company's competitiveness, but a necessary condition for doing business in today's world. The evidence shows the growing influence of ESG principles in shaping corporate reputation. The formation of ESG principles has now moved completely from the theoretical to the practical sphere. The most important decisions for companies, e.g. investment decisions, are made on the basis of whether the company meets the ESG criteria. One indicator of such compliance is ESG ratings and rankings, the most important of which are S&P, Sustainalytics, MSCI, CDP, ISS, RAEX and others.

High-tech companies are the most involved in the issue of ESG standards implementation, as evidenced by the monitoring of Russian media publications for the period from December 2020 to December 2021. The active growth rate of ESG mentions indicates a significant interest of Russian business and the media in this topic. The topic of sustainable development in the Russian media is dominated among industrial enterprises, mining companies. It can be concluded that the increased demand for ESG encourages Russian companies to pay more attention to the principles of sustainable development. For example, major brands already have divisions or individual specialists in charge of ESG.

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