An Analysis on ESG Index on Investor Invesment of Firms & Stock Performance: Theoretical Perspective in Exploration of Overlap of ESG and Sustainable Development

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Abstract

Several organizations and people over the last couple of years have recognized ESG (Environmental, Social, and Governance) and SD (Sustainable Development) as important concepts to be incorporated into one or a number of their day-to-day uses. Nonetheless, the overlap between ESG and SD is still under-researched, especially on a theoretical level. We intend to discuss this gap in this paper because of the theoretical background over the intersection of ESG and SD. In this study, we use the stakeholder theory and institutional theory as well as social constructivism to explore the intersection of ESG and SD. The results indicate SDG data is embedded in ESG and, therefore, the success of ESG may be dependent on effective management. It also reveals that ESG aspects can play a significant role in sustainable development as they may mitigate environmental degradation, enhance social equity and improve corporate governance. Stakeholder theory suggests that ESG can be viewed as a tool for balancing the conflicting interests of different constituencies, which is conducive to sustainable development. According to institutional theory, the relationship between ESG and SD is contextualised within institutional structures and norms. Social constructivism focuses on how social norms and values shape our perceptions of ESG and SD. The implications of the findings are critical for policymakers, business leaders and civil society organizations. They recommend that ESG factors be incorporated into decision-making across the board, from policies to corporate governance. In addition, the study points to the fact that more cooperation and coordination between stakeholders will be needed in order to meet sustainable development objectives. This study attempts to present a theoretical framework for understanding the overlap between ESG and SD, highlighting the importance of incorporating ESG considerations into sustainable development strategies and it contributes also helps for the development of a more comprehensive understanding of the complex relationships between ESG, SD, and sustainable development in society.

Keywords: ESG Considerations, Sustainable Development, Stakeholders theory, Institutional theory, Intersection.

1. Introduction

Recently, the concepts of Environmental, Social and Governance (ESG) and Sustainability Development (SD) have attracted much attention as the UN's SDGs2030 serves as the global framework. More and more, both organisational stakeholders and individuals engaging in communication apply those principles. This study begins with an analysis of the definitions and relationships between ESG and SD, as well as the theoretical frameworks for both concepts.

The origins of ESG investing can be dated back to the1960s and 1970s when environmental and social issues started to emerge as factors of concern among different industries and investors. These emerging issues were pointed out by Freeman (1984) and the term Environmental, Social and Governance (ESG) was initially derived and explained by John Elkington in the 1990s as a framework that provides a guideline on evaluating a firm's effects on environment, society, and corporate management (Elkington, 1994). Currently ESG stands for Environmental, Social and Governance, where business stakeholders have taken into consideration the impact of ESG factors in their business decisions (KPMG, 2020).

Sustainable Development, on the other hand, came to public consciousness in the 1980s after WCED published, Our Common Future, also referred to as the Brundtland Report. According to this definition, sustainable development was described as "development that is to fulfill the needs of the present generations without barring the ability of the next generations to meet their own needs." This definition has remained notable particularly after the publication of this report as the key crusade for governments, businesses, and CSOs both globally and locally (UNDP, 2015).

This paradigm is evident in corporate behaviour as the acknowledgment of ESG factors as a relevant element of sustainable development grows. The WEF revealed that 80% of large firms, those with annual revenues of over $1bn, now disclose their ESG figures – a sharp increase on the 45% recorded in 2015 (WEF, 2020). This trend is built on the knowledge that all ESG factors are crucial in generating sustainable development goals. This has changed mainly due to the availability of new frameworks and standards that can both direct and evaluate ESG performance like the TCFD and SASB.

While both ESG and SD are becoming increasingly relevant for firms, there is a lack of work that focuses on the relationship between the two concepts. This is so even though there is an understanding that ESG factors form a great part of sustainable development (GRI, 2019). This study intends to fill the above-mentioned gap by analysing the relationships between ESG and SD through theoretical frameworks. These frameworks include, stakeholder theory, institutional theory, and social constructivism in developing the analysis of the relationship. According to Freeman's stakeholder model, ESG factors enhance the conflict between the direct confronting opposing interests on behalf of each stakeholder, thus leading to sustainable growth (Freeman, 1984). Focusing on needs and concerns of different stake holders, organisations can generate value for the shareholders and for stakeholders in general that would be of lasting nature. Although the relationship between ESG and SD is well articulated, institutional theory focuses on how institutions influence them (DiMaggio and Powell, 1983).

An organization is not a closed system and it functions in an environment that has institutional pressures that impacts on its activities and decisions. It is therefore important that one appreciates these institutional dynamics to enable him or her to incorporate ESG in sustainable development successfully. ESG and SD are relativistic, following the social constructivist perspective of Giddens (1984), as they depend on the social norms and values. It posits that our perceptions and actions regarding ESG and SD are influenced by the social context and shared beliefs. Recognizing this can help organizations and policymakers foster a culture that supports sustainable development. The findings of this study have significant implications for policymakers, business leaders, and civil society organizations seeking to promote sustainable development. They suggest that ESG factors are embedded in the SDGs and that the achievement of these goals is contingent upon the effective management of ESG factors. By understanding the intersection of ESG and SD, stakeholders can develop more comprehensive strategies that address both immediate and long-term sustainability challenges. In conclusion, as the global community moves towards achieving the SDGs, the integration of ESG principles into sustainable development practices becomes increasingly vital.

2. Objectives of the Study

- To examine the theoretical influences between ESG and SD.
- To examine convergence of ESG variables in combination with SDGs.
- To explores the challenges companies, face when integrating ESG considerations into achieving the United Nations' Sustainable Development Goals (SDGs) and opportunities for overcoming these challenges.

3. Research Questions

- How are Environmental, Social and Governance (ESG) factors theoretical linked to the Sustainable Development Goals (SDGs)?
- How do companies currently integrating ESG factors into their strategies and operations for contributing to the SDGs and what is the effect of this integration on achieving certain goals?
- What are the top obstacles companies face when incorporating ESG considerations into their SDG Strategy and how can we overcome them?

4. Review of Literature

Liu, M., Lu, J., Liu, Q., Wang, H., Yang, Y., & Fang, S. (2024): "The influence of executive cognitive traits on corporate ESG performance: An institutional theory perspective" To measure the sustainability development of a company, one indicator can be useful — Environmental, Social and Governance (ESG) performance. This study proposes a model based on the integration of social embedding theory and Scott's institutional type to evaluate cognitive traits in top managers. The results show that political affiliation, education background and incentive of CEO remuneration all have positive effects on ESG performance. However, local budgetary action is changing these associations in a negative direction, with an even weaker association between executive characteristics and ESG performance.

Chopra, S. S., Senadheera, S. S., Dissanayake, P. D., Withana, P. A., Chib, R., Rhee, J. H., & Ok, Y. S. (2024): "ESG Reporting: Tackling the Hurdles, Towards Wider Sustainability". This paper investigates the complexities of environmental, social and governance (ESG) reporting, the need for interdisciplinary expertise, and the urgent requirement to transform existing accounting systems to accommodate evolving ESG disclosure standards. It suggests the Social and Environmental Accounting (SEA) framework as a structured approach to enhancing data quality, standardizing sustainability metrics, evaluating the impact of ESG reporting on stakeholders, and improving disclosure formats.

Seow, R. Y. C. (2024): "A Review of CSR and ESG Disclosures Determinant Studies: Comparability and Ambiguities". Stakeholder pressure has led to a rise in the literature on Environmental, Social, and Governance (ESG) and Corporate Social Responsibility (CSR) disclosures. These investigations do, however, have considerable uncertainties. The idea and proxy for CSR and ESG disclosures were found to be unclear in the study, which included 164 publications, 70% of which were published after 2018. It recommends that these issues be addressed in future study.

Comoli, M., Tettamanzi, P., & Murgolo, M. (2023): "Accounting for 'ESG'under disruptions: A systematic literature network analysis". Blockchain, the COVID-19 epidemic, climate change, and the energy crises have affected SMEs and companies, necessitating adjustments to accounting and governance frameworks. Few studies investigate inadequate accounting and reporting tools in disruption situations, despite the importance of sustainable business practices for social, environmental, and animal conditions.

Raman, R., Nair, V. K., Shivdas, A., Bhukya, R., Viswanathan, P. K., Subramaniam, N., & Nedungadi, P. (2023): "Mapping sustainability reporting research with the UN's sustainable development goal". This research delves into the function of Sustainability Reporting (SR) in corporate sustainability plans, with a particular emphasis on the agenda 2030 Sustainable Development Goals (SDGs) of the United Nations. With 13 SDGs, Australia leads the way in the exponential rise of SR articles and citations, especially after 2015. Since 2019, emerging economies have also contributed more, including Indonesia, Malaysia, and India. SDG 9 and 12 are highlighted as being crucial in this study, which use social network analysis to look into the SDG network based on SR articles. Green computing, cause-related marketing, ecologically friendly product selections, environmental management systems, and sustainability education are some of the future SR issues that are in line with the SDGs.

Teixeira Dias, F., de Aguiar Dutra, A. R., Vieira Cubas, A. L., Ferreira Henckmaier, M. F., Courval, M., & de Andrade Guerra, J. B. S. O. (2023): "Sustainable development with environmental, social and governance: Strategies for urban sustainability". This study examines how governance and urban policy interact, with a particular emphasis on the creation of sustainable urban space. It examines papers from 2017 to 2021 using bibliometric methods, with an emphasis on the Scopus and Web of Science databases. According to the research, urban policies work with governance to maintain ecological balance and the environment, which makes it possible to design policies related to environmental, social, and governance (ESG) that support the preservation and revitalization of cities.

Saini, N., Singhania, M., Hasan, M., Yadav, M. P., & Abedin, M. Z. (2022): "non-financial disclosures and sustainable development: A scient metric analysis". Non-financial disclosures (NFD) and sustainable development are examined in this study. To determine important study fields and the relationships across disciplines, it analyses data from 1568 studies conducted between 1991 and 2021. New aspects of ESG disclosures, such as environmentally conscious business practices and sustainable supplier chains, are made clear by the findings. To achieve sustainable corporate goals, the report identifies barriers and recommends more ESG research. It affects the business sector in developing nations in a practical way.

Costa, A. J., Curi, D., Bandeira, A. M., Ferreira, A., Tomé, B., Joaquim, C., & Marques, R. P. (2022): "Literature review and theoretical framework of the evolution and interconnectedness of corporate sustainability constructs". Since its introduction in 1987, the idea of sustainable development (SD) has undergone changes that have affected how it affects organizations. The terms corporate sustainability, corporate social responsibility (CSR), and sustainability are not well understood. This has resulted in misunderstandings and imprecise definitions, therefore reading evaluations of the relevant literature is essential to grasping the idea. Through the integration of many viewpoints on corporate sustainability, this research seeks to support academics by bringing together relevant data, enhancing managers' and entrepreneurs' understanding of the subject, and offering insights on previous studies.

Huang, D. Z. X. (2022): "An integrated theory of the firm approach to environmental, social and governance performance". This study highlights the significance of environmental, social, and governance (ESG) activity for a business's competitive advantage, social license, and risk management. It does this by presenting a thorough theoretical framework that detects and integrates ESG activity into firm performance.

Li, T. T., Wang, K., Sueyoshi, T., & Wang, D. D. (2021): "ESG: Research progress and future prospects". This paper presents the most current disciplines, trends, and collaboration status of ESG research through a Cite Space review. The theoretical underpinnings, interactions between dimensions, effects on the economy, role of risk prevention, and ESG assessment are all examined. The paper improves upon ESG research features, points up flaws, and suggests future directions for investigation. Sustainable development in the global economy and society is contingent upon adherence to the ESG concept.

Khaled, R., Ali, H., & Mohamed, E. K. (2021): "The Sustainable Development Goals and corporate sustainability performance: Mapping, extent and determinants". The research establishes a link between a company's Environmental, Social, and Governance (ESG) ratings and the Sustainable Development Goals (SDGs). It demonstrates which SDGs and objectives are more pertinent to the corporate world. Differences in corporate sustainability performance can be attributed to features unique to individual firms. The findings can direct comprehension of the connections among ESG concerns, company sustainability performance, and SDGs and support emerging market research.

Rajesh, R., & Rajendran, C. (2020): "Relating environmental, social, and governance scores and sustainability performances of firms: An empirical analysis". This study explores at the correlation between 1,820 corporations' worldwide sustainability performance from 2014 to 2018 and their Environmental, Social, and Governance (ESG) ratings. ESG performances were found to have a substantial and negative moderating influence, regardless of any direct linkages. According to this research, sustainability performance may be enhanced by giving issues connected to governance, the environment, and society top priority when putting plans and policies into practice.

5. Research Gap

In fact, environmental, social and governance (ESG) factors have garnered increasing recognition of their importance for meeting the Sustainable Development Goals (SDGs). Yet limited holistic theoretical perspectives exist on the ESG−SD nexus from stakeholder, institutional and social constructivist perspectives. Now, the most research has focused on ESG or SD, none of which have examined how they overlap and relate to each other. This shows the need for more research in this area both theoretically and practically.

6. Esg – Sdg Synergy

Incorporating ESG factors into their operations is crucial for companies aiming to reach the SDGs. These objectives seek to improve the world for all by addressing concerns such as poverty, climate change, and equality.

Businesses are discovering different methods to integrate ESG principles into their fundamental operations, enabling them to support sustainability objectives. One strategy they're implementing involves establishing distinct goals to decrease their carbon emissions and enhance their social influence. For example, Unilever and Microsoft have committed to reducing their impact on the environment, supporting Climate Action and Quality Education objectives. Moreover, reporting and transparency are essential factors in this process.

Intersection of ESG dimensions and Sustainable Development Goals (SDGs) is shown in figure 1.

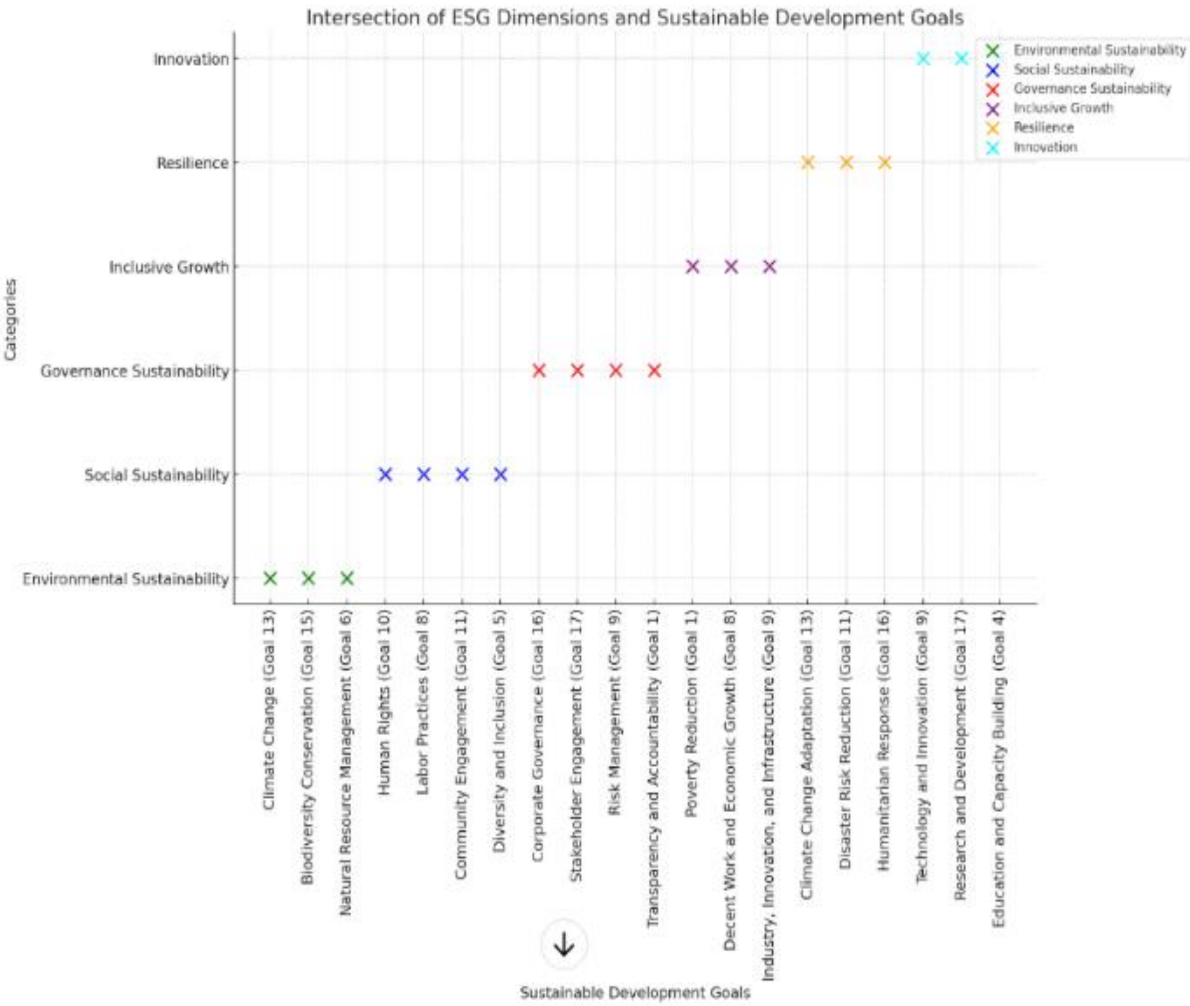

Figure 1. Intersection of ESG dimensions and Sustainable Development Goals (SDGs).

Source: The framework outlined here draws heavily from the UN's Sustainable Development Goals (SDGs) and the Global Reporting Initiative (GRI) Sustainability Reporting Framework. These ESG dimensions have been modified from GRI's Sustainability Reporting Guidelines. United Nations. (2015). United Nations Sustainable Development Goals Accessed at https://www.un.org/sustainabledevelopment/sustainable-development-goals/Global Reporting Initiative. (2019). Guidelines for Sustainability Reporting Source: https://www.globalreporting.org/information/gri-sustainability-reporting-guidelines/

Businesses utilize tools such as the Global Reporting Initiative (GRI) to disclose their ESG achievements. This allows them to monitor their progress and identify areas for enhancement in order to achieve the SDGs. Another major emphasis is on responsibly managing their supply chains. This involves ensuring that their suppliers adhere to favourable environmental and labour practices, contributing to initiatives such as Decent Work and Responsible Production. It is also important to consider innovative strategies, such as supporting the development of green technology. Corporations like Tesla are producing electric cars and putting money into sustainable energy, contributing to initiatives like Affordable and Clean Energy and Climate

Action. It is essential to interact with employees and communities. Businesses such as Salesforce implement initiatives to advance diversity, ethical labour practices, and community growth, backing aims such as Gender Equality and Reduced Inequalities. Effective governance is equally important. Strong risk management, ethical conduct, and accountability are essential for companies to maintain sustainability. This assists in achieving objectives such as Peace, Justice, and Strengthening Institutions. IBM and Johnson & Johnson both have robust governance structures that guarantee accountability and transparency. By incorporating ESG factors into their plans, businesses can greatly contribute to the attainment of targeted SDGs. An instance of this is Apple and Google's efforts to achieve carbon neutrality, aiding in the battle against climate change. Microsoft is offering digital skills and education to marginalized communities, encouraging inclusive learning. ESG frame work is shown in figure 2.

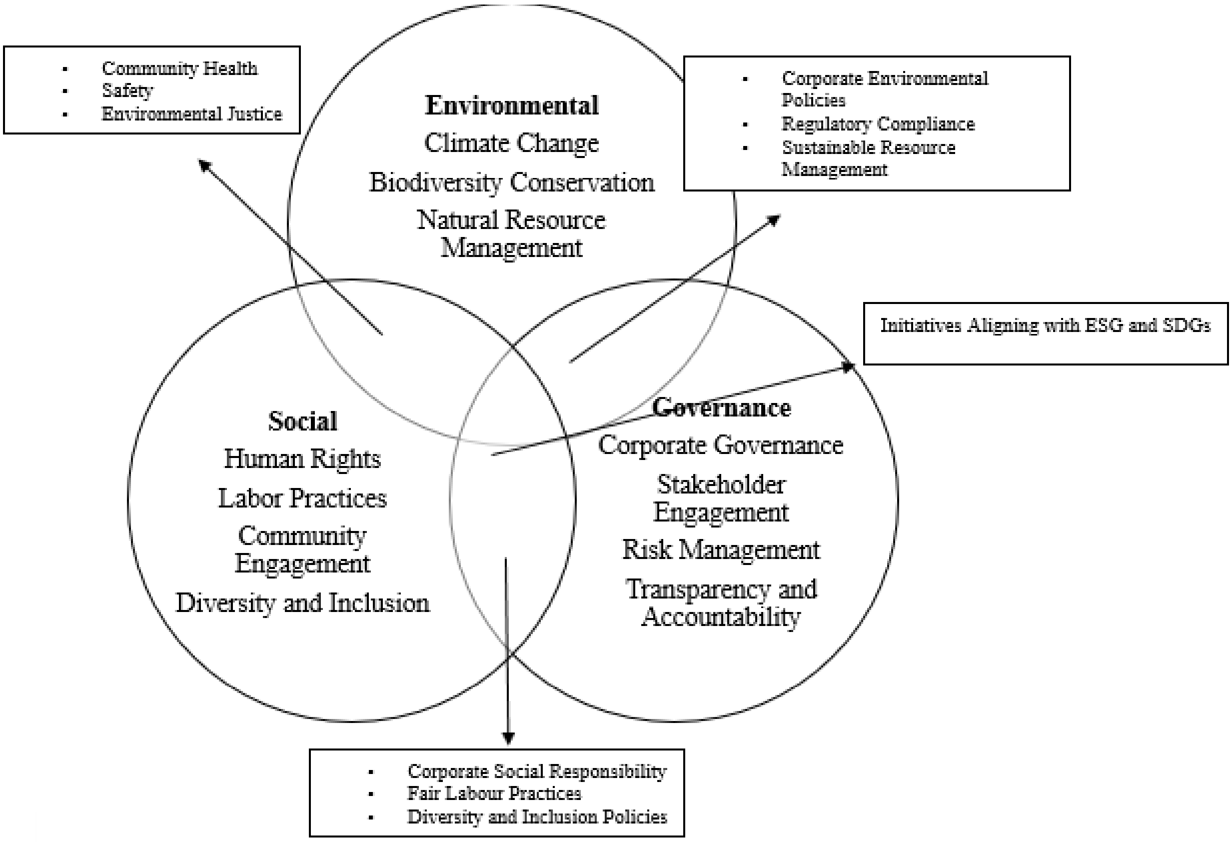

Figure 2. **ESG framework**

Source: This Venn diagram is draw on the based on the information provide by this report. Global Reporting Initiative (GRI). (2019). Sustainability Reporting Guidelines. United Nations. (2015). Sustainable Development Goals. International Organization for Standardization (ISO). (2018). ISO 26000:2018 - Guidance on social responsibility. KPMG. (2019). Sustainability reporting: A guide to the GRI Standards.

Key theoretical connections between Environmental, Social, and Governance (ESG) considerations and the Sustainable Development Goals (SDGs): The relationship between Environmental, Social, and Governance (ESG) considerations and the Sustainable Development Goals (SDGs) represents a crucial link within the search of global sustainability. This courting is supported by several theoretical frameworks, which include stakeholder theory, institutional idea, and social constructivism. Understanding those connections illuminates how ESG factors can pressure progress towards accomplishing the SDGs and foster a greater sustainable future.

Stakeholder Theory and ESG-SDG Alignment: Stakeholder theory posits that businesses need to cope with the interest of all their stakeholders—no longer simply shareholders—to obtain long term achievement and sustainability (Freeman, 1984). This theory is foundational in linking ESG concerns to the SDGs, because it emphasizes the importance of balancing various stakeholder needs, which directly correlates with the complete and inclusive nature of the SDGs.

Environmental Dimension (E): Stakeholder theory indicates that organizations need to mitigate their environmental impact to satisfy not most effective regulatory necessities however also the expectations of groups, consumers, and environmental companies. This aligns with numerous SDGs, which include Climate Action (Goal thirteen), Life below Water (Goal 14), and Life on Land (Goal 15), which call for pressing environmental stewardship.

Social Dimension (S): Addressing social factors like human rights, labour practices, and community engagement is important for preserving positive stakeholder relationships. This correlates with SDGs cantered on social fairness and well-being, such as No Poverty (Goal 1), Quality Education (Goal 4), and Gender Equality (Goal 5). Organizations that prioritize social sustainability are better equipped to make contributions to those dreams via fostering inclusive increase and social justice.

Governance Dimension (G): Effective governance systems ensure transparency, accountability, and ethical behaviour, which might be important for gaining and retaining stakeholder trust. Good governance practices support SDGs inclusive of Peace, Justice, and Strong Institutions (Goal sixteen) and Partnerships for the Goals (Goal 17), as they sell institutional integrity and collaborative efforts in the direction of sustainability.

Institutional Theory and ESG-SDG Integration: Institutional theory highlights the position of established norms, regulations, and structures in shaping organizational conduct (DiMaggio & Powell, 1983). This theory underscores how institutional pressures—together with guidelines, industry standards, and societal expectations—authorities to undertake ESG practices that align with the SDGs.

Regulatory Influence: Governments and international bodies increasing number of mandates ESG disclosures and sustainable practices, compelling organizations to align their operations with SDGs. For example, rules on carbon emissions push companies closer to SDG 13 (Climate Action).

Industry Standards: Industry-precise standards and certifications (e.G., LEED for green housing, Fair Trade for ethical sourcing) create a normative stress for groups to contain ESG elements into their strategies, thereby advancing multiple SDGs related to environmental sustainability and social welfare.

Societal Expectations: Growing public focus and demand for company obligation have an effect on groups to undertake ESG practices. This societal strain drives groups to make contributions to SDGs like Responsible Consumption and Production (Goal 12) and Decent Work and Economic Growth (Goal 8), as consumers and employees an increasing number of favour sustainable and moral brands. Theory with ESG and SDGs Approach is illustrated in figure 3.

Diagram representing the Theory with ESG and SDGs Approach

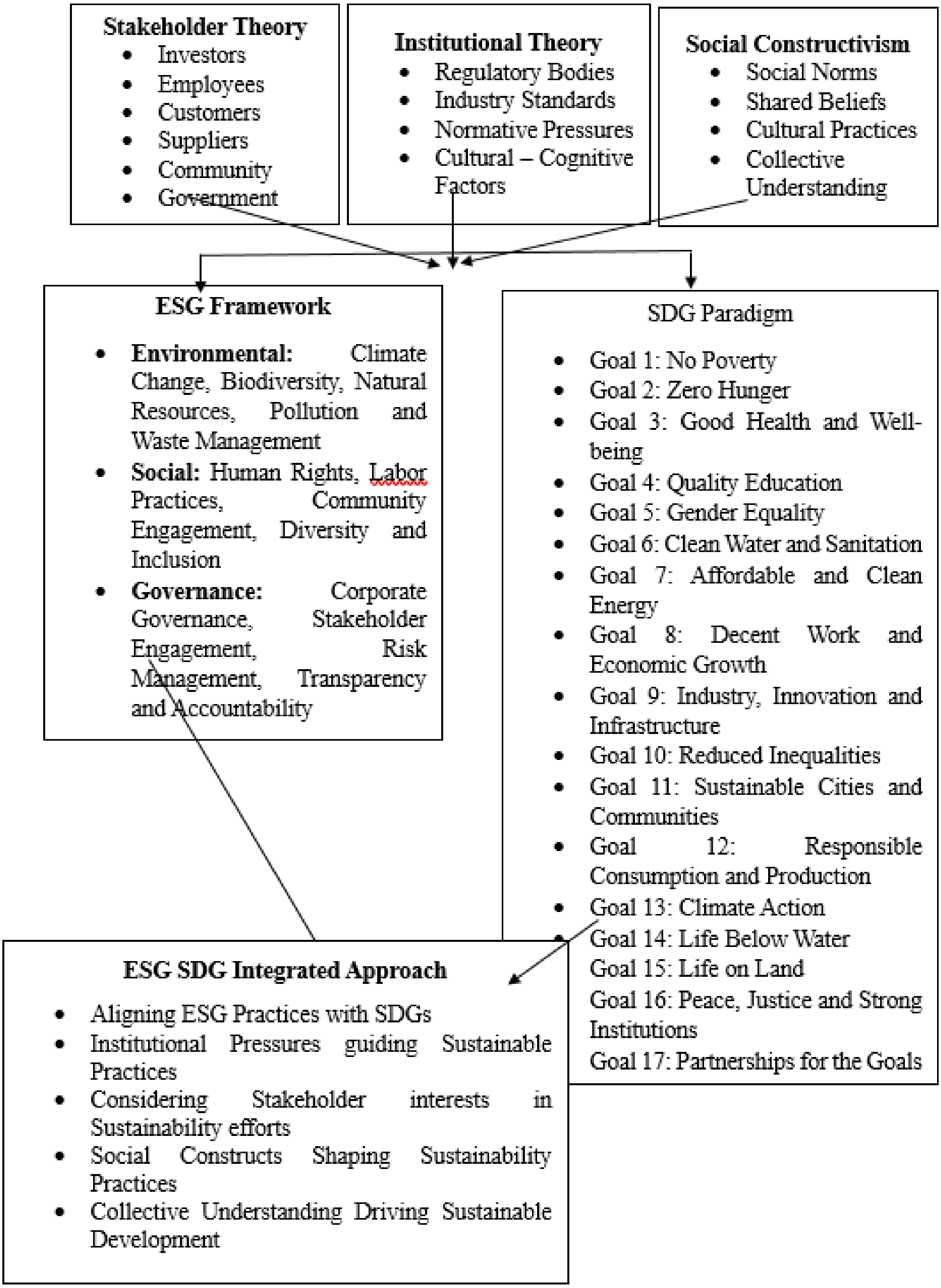

Figure 3. Theory with ESG and SDGs Approach

Social Constructivism and the ESG-SDG Paradigm: Social constructivism emphasizes the function of social norms, values, and collective beliefs in shaping our understanding and moves (Giddens, 1984). This theoretical attitude sheds light on how ESG concerns and the SDGs are socially built and collectively reinforcing.

Shared Values and Norms: ESG and the SDGs each reflect a worldwide consensus at the importance of sustainability and social obligation. As these principles are socially constructed, they evolve via collective movement and discourse, reinforcing each other. For example, the developing emphasis on variety and inclusion within the ESG framework aligns with SDG 5 (Gender Equality) and SDG 10 (Reduced Inequalities).

Collective Action and Advocacy: Social actions and advocacy groups play a pivotal function in shaping ESG norms and riding development in the direction of the SDGs. By mobilizing public opinion and exerting stress on policymakers and agencies, these groups help align company behavior with global sustainability goals.

Narrative and Communication: The narratives round ESG and the SDGs shape organizational strategies and public perceptions. Effective conversation approximately ESG initiatives and their alignment with the SDGs can beautify a business enterprise's recognition and stakeholder engagement, growing a virtuous cycle of sustainability.

7. Challenges

Companies face several challenges when integrating ESG considerations into their SDG strategies. One of the most extensive demanding situations is the dearth of readability and consistency in SDG goals. The 17 SDGs are frequently large and overlapping, making it tough for organizations to prioritize and focus on unique goals (Source: UNDP, 2019). This can result in a lack of transparency and accountability, making it hard for stakeholders to assess the organization's progress toward accomplishing the SDGs.

Another problem in measuring and tracking progress. Companies might also warfare to degree and track their progress in the direction of SDGs, mainly in the event that they lack the necessary statistics, metrics, or reporting frameworks (Source: GRI, 2019). This can result in a loss of alignment among the company’s ESG approach and its overall business strategy.

Integration with present commercial enterprise operations is also a great task. Companies may additionally war to integrate ESG considerations into their business operations, specifically in the event that they lack the necessary know-how, assets, or infrastructure (Source: WBCSD, 2019). This can result in a loss of buy-in and aid from stakeholders, making it difficult for companies to obtain their SDG goals.

Stakeholder engagement and communique is likewise a substantial challenge. Companies may additionally battle to interact stakeholders and talk their ESG strategy and progress, particularly if they have extraordinary priorities or expectations (Source: ISO, 2018). This can result in a loss of accept as true with and credibility, making it difficult for businesses to acquire their SDG goals.

Balancing financial and social goals is some other challenge. Companies can also battle to stability their financial objectives with social and environmental objectives, as they'll require extraordinary techniques or prioritization (Source: Harvard Business Review, 2019). This can result in a trade-off between monetary performance and social effect.

Limited assets and price range are also a great challenge. Companies can also face limited sources and budget constraints, making it hard to allocate enough assets to ESG tasks (Source:

World Bank, 2019). This can cause a lack of investment in ESG tasks, making it hard for businesses to achieve their SDG desires.

Finally, regulatory complexity and uncertainty is a sizeable challenge. Companies may also face regulatory frameworks and laws associated with ESG which can be complex and uncertain, making it tough for them to navigate and comply (Source: OECD, 2019). This can lead to a lack of clarity and consistency in regulatory requirements, making it hard for companies to acquire their SDG desires.

8. Opportunities:

Despite the challenges, there are numerous opportunities for companies to conquer them. One possibility is to collaborate with stakeholders. Companies can interact with stakeholders, which include NGOs, investors, and clients, to better recognize their priorities and expectancies (Source: UNDP, 2019).

Another possibility is to develop a clear and targeted SDG approach. Companies can expand a clear and focused SDG strategy that aligns with their commercial enterprise objectives and values (Source: GRI, 2019). This can assist companies prioritize their efforts and awareness on particular goals.

Companies also can put money into facts collection and reporting gear. By investing in statistics series and reporting equipment, corporations can track progress towards SDGs and measure the effectiveness of their ESG initiatives (Source: WBCSD, 2019).

Additionally, businesses can develop a complete ESG framework that outlines their technique to ESG issues (Source: ISO, 2018). This can assist companies prioritize their efforts and ensure that their ESG method is aligned with their normal commercial enterprise strategy.

Finally, corporations can associate with specialists and businesses. By partnering with professionals and groups, agencies can advantage insights, percentage exceptional practices, and get right of entry to resources and expertise (Source: Harvard Business Review, 2019).

9. Conclusion

The connection between ESG factors and SDGs plays an essential role in accomplishing worldwide sustainability due to its complicated and diverse nature. Although the significance of ESG in the framework of SDGs is more and more mentioned, there is still a super lack of sturdy theoretical frameworks that may absolutely explain this connection. Current research regularly examines ESG or SD one at a time, indicating a necessity for extra studies that delve into their connection and mutual relationship. Stakeholder principle, institutional concept, and social constructivism offer critical views on comprehending this intersection, yet further empirical research is vital to verify and construct upon these theoretical frameworks. Closing this research gap will not simply enhance our theoretical understanding however also offer practical recommendation for policymakers, groups, and civil society corporations looking to enhance sustainable development. By incorporating ESG factors into sustainable improvement plans, stakeholders can strive toward a future that is more identical, inclusive, and environmentally friendly for anybody.

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