

MANAGERIAL INSIGHT

Governance of social attributes behind ESG concepts in business entities: an empirical evidence based on the benchmarking approach

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Abstract

Purpose - This paper investigates the human resource management aspects within the broader context of social spill-over and their implications on business sustainability, examining empirical evidence based on a benchmarking approach utilized by the World Benchmarking Alliance.

Design/Methodology/Approach - Utilizing hierarchical tree clustering analysis, this study assesses the similarity in ESG performance across a global sample of 1600 companies. The data, sourced from the World Benchmarking Alliance, spans from 2021 to 2023, focusing on companies' adherence to Sustainable Development Goals.

Findings - The analysis reveals significant regional variations in the adoption of social attributes in business practices. Companies in Europe and North America generally exhibit higher performance in respecting human rights and promoting decent work compared to their counterparts in the Far East, Middle East, and Africa.

Practical Implications - The findings suggest that regional ESG benchmarks can guide companies in enhancing their social sustainability practices. Policymakers and business leaders can use these insights to foster a more inclusive approach to corporate sustainability.

Originality/Value - This study contributes to the literature by mapping the empirical relationships between ESG standards and corporate social responsibility across diverse geographical contexts, highlighting the role of benchmarking in driving business sustainability.

KEYWORDS

ESG; Corporate Sustainability; Benchmarking; Sustainable Development Goals; Corporate Social Responsibility.

1 | INTRODUCTION

Environmental, Social, and Governance (ESG) criteria have increasingly become vital metrics for evaluating the non-financial performance of businesses. These metrics not only reflect the sustainability and ethical impact of a company but also influence its financial health and investor appeal. The integration of ESG factors is particularly prominent under the United Nations' 2030 Agenda for Sustainable Development, which aims to guide global efforts towards sustainable economic growth, reduced inequalities, and environmental preservation United Nations (2024).

Despite the European Union's leadership in implementing the 2030 Agenda, debates persist within member states concerning the potential competitive disadvantages imposed by rigorous sustainability standards Soni (2023). This paper explores the governance of social attributes within business entities, focusing on the human resources aspect. Specifically, it examines how companies manage their labor forces in ways that align with qualitative and quantitative requirements, which are crucial for both productivity and sustainability.

Furthermore, this study addresses the legislative frameworks shaping ESG practices, such as the upcoming Corporate Sustainability Reporting Directive (CSRD) which mandates increased transparency in how large companies report on their social and environmental impact. By analyzing empirical evidence through a benchmarking approach, the

paper seeks to uncover the extent to which companies across different regions integrate and report on social attributes that contribute to sustainable development goals. The objective is to identify regional differences and highlight best practices that can inform policy and operational adjustments towards improved ESG compliance and performance Commission (2024).

2 | LITERATURE REVIEW

The United Nations 2030 Agenda for Sustainable Development represents a strategic document for the necessary steps by all countries of the world towards ensuring improvements in the areas of health, education, reduction of inequality or economic growth while respecting the challenges of global climate change United Nations (2024). Santa et al. (2023) provides results of an empirical study on a key player in the selected industry paper mills in Brazil that shows more awareness and satisfaction of people under adoption of ESG business practises, including environment and economy side. Sadiq et al. (2023) investigated among others also the social and governance score of SDG (Strategic Development Goals) reports and world development indicators in the time series of years 1986 to 2020 for Association of Southeast Asian Nations (ASEAN) countries. They concluded a positive association between those scores results and ASEAN countries' SDGs. Similarly, Soni (2023) brings results on a positive correlation between ESG scores and country-specific SDG scores in Environment areas for case of emerging economies, covering Brazil, China and India. On contrary, those emerging economies are not proving a positive development relationship for the Social and Governance factors. In addition, Bekaert et al. (2023) argue substantial investments into meeting environmental, social and governance requirements. Their research proved the positive linkage between ESG principles, investment benchmarks regarding stock market and SDGs for the sample period 2013 - 2018.

It is possible to identify different types of scoring principles of environmental (E), social (S), and corporate governance (G). The aggregated approach evaluates all factors E, S, and G. It thus includes the evaluation of both groups of factors and the evaluation of partial factors (e.g., climate risks). Furthermore, ratings using the perspective of double materiality (risks and impacts) or the point of view of single materiality (assessment of only risks or only impacts), also with the help of international standard frameworks (e.g., Sustainability Development Goals). Last but not least are ratings involving rating analysts or scores based solely on data analysis (Commission 2024).

The World Benchmarking Alliance provides publicly available data of the most influential businesses of the world, regarding the assessment of the core social indicators (CSI). Specifically, it concerns the period from 2021 to 2023. These indicators are focused on the principles of the so-called social transformation and highlight high social expectations towards their fulfilment by the companies. These expectations are linked to the areas of sustainable development goals and should help these principles to be incorporated into all areas of economic activities.

Basic social indicators assess companies in three areas: respect for human rights, provision and support of decent work and ethical behavior (Alliance 2023).

EU legislation stipulates for large companies and all publicly traded companies with an exemption on the micro-sized businesses to disclose their assessment of risks and opportunities resulting from the social and environmental attributes of their business activities and their impact on society and the environment. These disclosures help stakeholders such as investors, NGOs, consumers and others to assess the performance of businesses in the field of sustainability within the European Green Deal. At the beginning of 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force. This directive modernizes and strengthens the rules regarding social and environmental information that must be reported by businesses (Commission 2024).

The year 2024 is associated with the validity of the new Corporate Sustainability Reporting Directive (CSRD). The CSRD Directive replaces the NFRD (Non-Financial Reporting Directive) and introduces new standards and obligations for non-financial reporting. In particular, this is the principle of double materiality. A new obligation arises to disclose information in areas such as the impact of the company's activities on the climate and society, how the concepts of sustainability (social and environmental) affect society.

The deadlines for the first non-financial reporting on sustainability are set for the following years, depending on the category of companies LegalFirm (2024), see table 1.

The integration of ESG factors into corporate practices and governance is an area of growing interest and importance (Lissillour and Silva 2024). Studies have shown that companies with robust ESG frameworks tend to exhibit higher levels of governance transparency and stakeholder engagement. Edmans et al. (2024) argue that employee satisfaction, which is often higher in firms with strong ESG commitments, correlates with better operational outcomes and stock returns. This highlights the practical benefits of ESG beyond compliance, suggesting that ESG principles can significantly enhance corporate governance and overall business health.

The societal impact of ESG practices extends beyond the confines of individual corporations and spread along the whole supply chain (Bonet Fernandez and Lissillour 2023). ESG initiatives can drive broader social changes, influencing public policies, consumption and community practices (Lissillour et al. 2022). (Krueger et al. 2023) discuss the concept of a 'sustainability wage gap', where employees are willing to accept lower wages to work for environmentally sustainable firms. This phenomenon reflects the growing public and workforce demand for responsible business practices, underscoring the social value of ESG beyond mere corporate benefits.

3 | METHODS AND RESOURCES

Hierarchical tree clustering analysis was used to evaluate the research question regarding the existence of a similarity within the observed

Year	Entity Type	Requirement
2024	Large public interest entities with more than 500 employees	Required to publish sustainability information in 2025 for the 2024 accounting period
2025	Large companies that meet 2 of the 3 following criteria: <ul style="list-style-type: none"> • Turnover of more than 40 mil. EUR • Assets of more than 20 mil. EUR • More than 250 employees 	Required to publish sustainability information in 2026 for the 2025 accounting period
2026	Small and medium-sized companies that have issued securities traded on a stock exchange in the EU	Obligated to publish information on sustainability in 2027 for the accounting period 2026
2028	Companies from third countries that exceed 150 mil. EUR turnover in the EU	Required to publish sustainability information in 2029 for the accounting period 2028

TABLE 1 Timeline and Requirements for Sustainability Reporting

Category	Criteria
Respecting Human Rights	CSI 1 - Commitment to respect human rights, CSI 2 - Commitment to respect the human rights of workers, CSI 3 - Identifying human rights risks and impacts, CSI 4 - Assessing human rights risks and impacts, CSI 5 - Integrating and acting on human rights risks and impacts, CSI 6 - Engaging with affected and potentially affected stakeholders, CSI 7 - Grievance mechanisms for workers, CSI 8 - Grievance mechanisms for external individuals and communities
Provide and Promote Decent Work	CSI 9 - Health and safety fundamentals, CSI 10 - Living wage fundamentals, CSI 11 - Working hours fundamentals, CSI 12 - Collective bargaining fundamentals, CSI 13 - Workforce diversity disclosure fundamentals, CSI 14 - Gender equality and women's empowerment fundamentals
Act Ethically	CSI 15 - Personal data protection fundamentals, CSI 16 - Responsible tax fundamentals, CSI 17 - Anti-bribery and anti-corruption fundamentals, CSI 18 - Responsible lobbying and political engagement fundamentals

TABLE 2 Aggregated Groups of Criteria and Sub-Criteria in Benchmarking

benchmark ratings list of sample of 1600 world-wide companies that is publicly accessible by Alliance (2023). In that benchmark, the respective company can gain up to 20 points regarding the set of the 3 aggregated groups of criteria and respective sub-criteria as shown in table 2.

For the purposes of this explorative type of article on classifying a sample of benchmarked criteria of food processing businesses, the Ward's method for clustering approach is employed Simovici (2021). This method can cover both continuous and discrete types of data in order to classify businesses in the sample via clusters, while considering within observation the above declared individual benchmarking indicators. The data transformation according to their mean over standard deviation multiple was employed in order to standardize it.

4 | RESULTS AND DISCUSSION

The evolvement of social attribute incorporation into business activities using the publicly available data of the World Benchmarking Alliance (©2023) can be seen in Fig. 1. It is evident that companies settled in Europe regarding the social factors involved in business activities

have an outstanding position. For all three observed years, companies based in Europe followed by companies based in North America over-performed compared to other companies worldwide. Conversely, businesses settled in Far East regions have consistently lagged behind in social attributes. This partial result is consistent with findings of Soni (2023) who points out the lag in Social and Governance factors in the observed emerging economies. Among the most fulfilled group of criteria are the observed areas of respecting human rights in European and North-American regions, namely CSI 1 to CSI 7; these include commitment to respect human rights, identifying, assessing, integrating, and acting on human rights risks and impacts, and engaging with affected stakeholders Soni (2023).

The analysis of observed core social indicators also revealed high variability among partial indicators such as CSI 10 - Living wage fundamentals and CSI 11 - Working hours fundamentals, where results for regions such as Latin America & Caribbean, Middle East & North Africa, Sub-Saharan Africa, or South Asia are providing absolutely unsatisfactory results. These findings differ from those of Krueger et al. (2023), who argue that workers with preferences for sustainability accept lower wages to work in more environmentally sustainable firms.

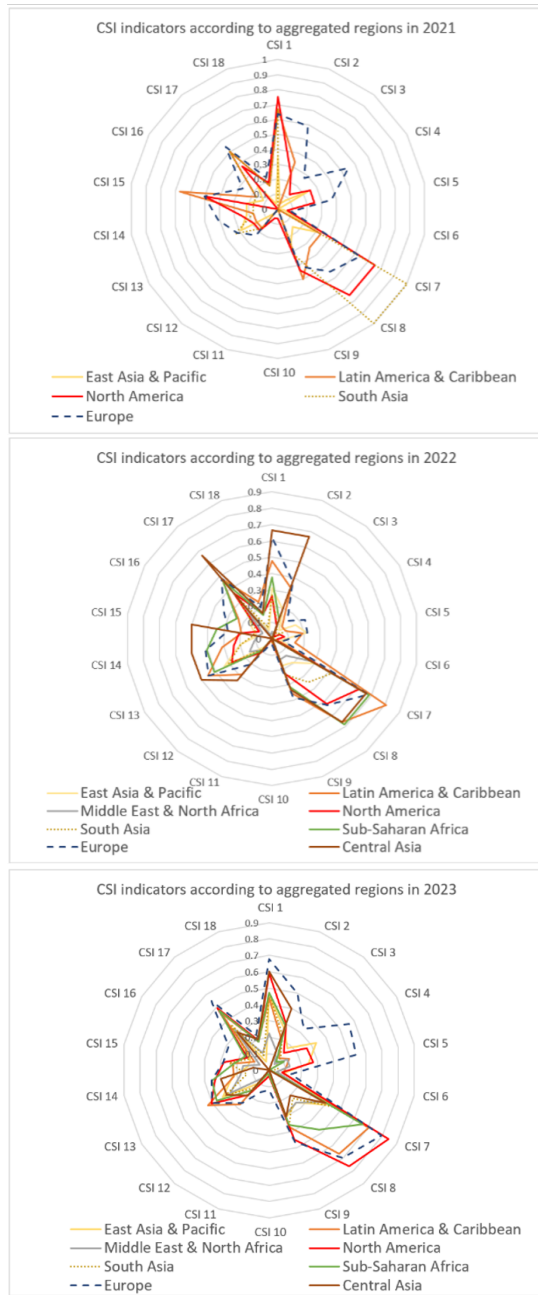


FIGURE 1 Development of observed SDG benchmarking criteria according to world regions within years 2021 - 2023.

Conversely, Edmans et al. (2024) demonstrate that employee satisfaction contributes significantly to recruitment, retention, and motivation benefits where firms face fewer hiring and firing constraints.

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(2023), who argue, that workers with preferences for sustainability accept lower wages to work in more environmentally sustainable firms. Adversely, Edmans et al. (2024) proves employee satisfaction through a greater extent of recruitment, retention, and motivation benefits where firms face fewer hiring and firing constraints. Similarly, Gimpl (2024) states a positive relationship between employee satisfaction and anticipation of operational outcomes, such as profitability and sales growth that is definitely also influencing the wage remuneration of employees. Among the highest assessed indicators are identified CSI 7 - Grievance mechanisms for workers, CSI 8 - Grievance mechanisms for external individuals and communities. This finding is consistent with those of Samans and Nelson (2022), who claim an employee well-being via an improvement of diversity and inclusion, investments in skills and future workforce development and their grater overall inclusion into business activities.

More detailed insight into observed social attributes of business activities regarding the world countries dimension is provided via the employed hierarchical clustering approach. Figure 2 depicts the output of the clustering procedure, outlining social attributes of business activities mainly from companies based in diverse countries such as Azerbaijan, Ecuador, Egypt, Ethiopia, among others. The hierarchical clustering also provides insight into similarity attributes of social principles incorporation in business activities of the involved corporates, distinguishing between European and non-European companies.

This partial finding can be framed by the conducted survey of Zeng et al. (2024), who employed a bibliometric analysis approach to provide an overview regarding the current status of ESG standards in China, highlighting significant roles of the government's promotion of ESG standard formulation and regulation. Conversely, Cao et al. (2024) find in their research that the labor force in the supply chain should be viewed as right-holders and needs empowerment to understand and claim their rights.

There are nowadays also other approaches to corporate sustainability reporting, such as the GRI (Global Reporting Initiative) standards. GRI standards enable consistent reporting that helps organizations meet their stakeholders' needs for comparable data. Many companies, even those with limited regional activities, are already disclosing non-financial information (sustainability reports) and have developed their sustainability reports based on GRI recommendations European Union Public Policy Association (EUPPA) (2021).

5 | CONCLUSIONS

Results of our analysis employing secondary data on available core social indicators provided by the Alliance (2023) classify EU Member States as leaders in the field of social responsibility and sustainability in business activities. On the other hand there is a missing robust public claim on a willingness to remunerate this type of activities even in developed world economies. A partial limitation of our research can

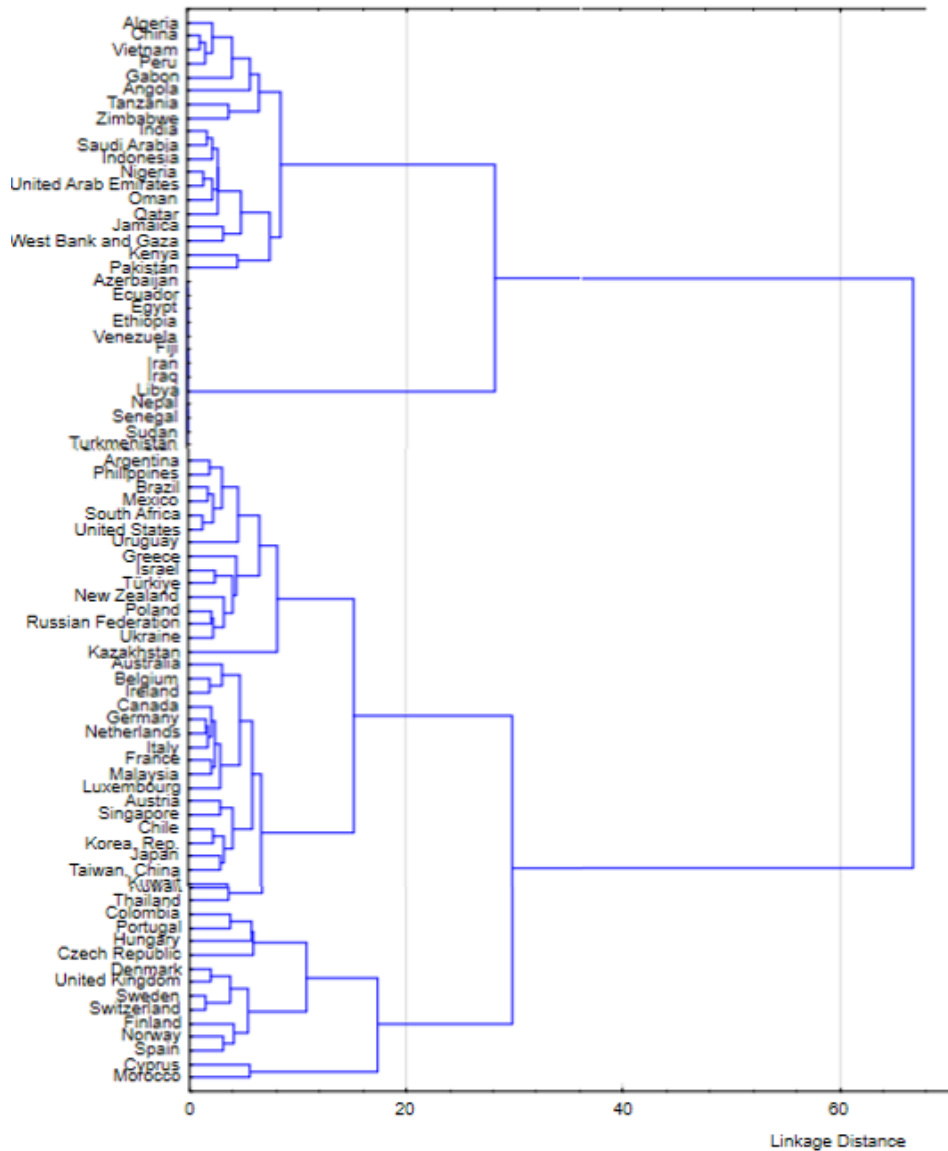


FIGURE 2 Output of hierarchical clustering procedure using CSI indicators representing social attributes of business activities.

be seen in the lack of primary data regarding the assessment and perception of the status of social attributes regarding labor force usage directly from employees. Future studies may employ practice-based approaches (Lissillour et al. 2023) to better understand the social realities and power structure involved in the implementation of these measurements. Despite the growing demand for sustainable production, many businesses hesitate to incorporate complex social goals into their planning processes. Transparent measurement and reporting of the social side of their activity requires not only time, but also costs, and often result in organisational resistance (Lissillour and Monod 2024). The ability to monitor the congruence between performance goals and social attributes with respect to company employees can help streamline and improve the process side of human resources management. However,

it also requires the incorporation of strategic approaches. It is currently visible a growing resentment across economically developed countries towards measures in the area of sustainability of corporate production. Usually supported by populist political entities defining the competitiveness and sustainability of business against each other. However, the social area should be the starting point that can help to change negativist approaches to sustainability visions and goals.

AUTHOR CONTRIBUTIONS

The authors contributed to conceptualization, writing, reviewing, editing and addressing reviewer comments.

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FINANCIAL DISCLOSURE

None reported.

CONFLICT OF INTEREST

The authors declare no potential conflict of interests.

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SUPPORTING INFORMATION

Additional supporting information may be found in the online version of the article at the publisher's website.

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