

A Systematic Review of the ESG Strategy Literature and Future Outlook

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Abstract

This review investigates the importance of ESG factors in determining the long-term development and investment performance of companies, and identifies existing challenges and future directions in ESG strategy research. Through a comprehensive review and analysis of the existing literature on ESG strategy, the study highlights the key findings, implications, and future research directions in this field. The research underscores that incorporating ESG factors into corporate strategies enhances overall performance and contributes to sustainable development, while also revealing various implementation challenges such as difficulties in quantifying ESG factors and navigating diverse ESG criteria and assessment systems. This study presents an interdisciplinary approach to address ESG strategy research challenges, emphasizing the importance of harmonizing ESG standards and leveraging new technologies for improved data collection and analysis. The review acknowledges the limitations in current ESG strategy research, and suggests future research directions focusing on addressing these limitations, identifying suitable ESG evaluation criteria, and exploring the integration of new technologies in ESG investment. The findings stress the need for senior leadership support, establishment of a systematic framework, and effective communication with stakeholders for successful ESG strategy implementation, ultimately ensuring long-term competitiveness and sustainability for organizations.

Keywords

ESG Investment; Corporate Sustainability; Environmental Social Governance; Sustainable Finance; Responsible Investment.

1. Introduction

An ESG strategy can be defined as a corporate strategy that emphasizes non-financial indicators, such as environmental, social, and governance factors, with the objective of achieving sustainable development goals and fulfilling social responsibility. In today's business environment, incorporating environmental, social, and governance (ESG) factors into corporate decision-making has become increasingly critical (Eccles et al., 2013). An ESG strategy entails the adoption of policies and practices that assess the potential consequences of a company's actions on the natural environment, stakeholders, and long-term sustainability (Eccles et al., 2014). This perspective recognizes that a company's success is not solely determined by its financial performance, but also by its capacity to generate value for all stakeholders while minimizing adverse effects on the environment and society (Freeman et al., 2010).

ESG strategy has gained significant attention from the business community in recent years, as more and more companies recognize the potential benefits of incorporating ESG considerations into their decision-making processes. According to OCEG's (2021) survey, the majority of companies worldwide have already developed or plan to develop ESG-related corporate plans. In addition, research by UBS (2020) from 2015 to 2020 found that companies with strong ESG performance have higher stock returns than those with weaker ESG performance. ESG

strategies can also improve a company's brand value, foster innovation, and increase employee satisfaction, thereby providing a strategic advantage for sustainable growth.

ESG strategy research has made significant contributions to our understanding of sustainable development, corporate performance, and value creation. However, existing research still faces some challenges that need to be addressed to ensure the effectiveness of ESG strategies. One major challenge is the subjectivity and uncertainty in the consideration of ESG factors, which may lead to misjudgment or neglect of important factors in the decision-making process of enterprises (Bebbington et al., 2014). Another challenge is the high risks and costs associated with implementing ESG strategies, which may affect the economic efficiency and competitiveness of companies (Hart & Dowell, 2011). Finally, the lack of ESG evaluation criteria and standardization is another obstacle to effective ESG strategy implementation (Busch & Lewandowski, 2018). To this end, more research and collaboration are needed to establish reliable evaluation criteria and improve data collection and analysis, balance costs and benefits, and standardize and harmonize ESG evaluation criteria across companies and industries.

This paper aims to offer a comprehensive review of the current state of ESG strategy research, delving into the theoretical foundations and practical implementations in corporate contexts, addressing challenges, and suggesting future research directions. The guiding research question for this review is: What are the primary issues and challenges in ESG strategy research, and how can future research directions be identified to effectively address these concerns?

This systematic review and analysis of the literature on ESG strategy provides valuable insights into the main problems and challenges in the field, as well as proposes directions and suggestions for future research. The contribution of this paper lies in providing a comprehensive and in-depth review for this field, which will guide the direction of future research and practice.

2. The Main Problems of Existing ESG Strategy Research

The development of ESG strategies has gained increasing attention in recent years. However, existing research faces several challenges that need to be addressed. In this article, we will analyze and critique the main problems of existing ESG strategy research and propose potential solutions.

2.1. Data Quality

Data quality is a critical factor in the development of ESG strategies. To ensure the reliability and validity of ESG strategy research, certain standards and methods need to be followed when assessing and selecting data. However, variations in data quality exist among different data providers and research institutions. To address this issue, companies should provide more high-quality data on their performance in important ESG factors (Hsu et al., 2014). Therefore, data quality is the foundation and core of ESG strategy research. The accuracy and integrity of data must be guaranteed to ensure the reliability and validity of ESG strategy research.

2.2. Indicator Selection

Indicator selection is a crucial aspect of ESG strategy research. Suitable indicators need to be selected for analysis based on different research objects and purposes to ensure accuracy and credibility. Factors such as reliability, comparability, and practicality must be considered to ensure that the indicators selected can truly reflect the ESG strategy performance of enterprises and have certain comparability and applicability (Klettner et al., 2014).

2.3. Research Methodology

The methodology employed in ESG strategy research is crucial for ensuring the accuracy and reliability of the results. To obtain precise and dependable findings, researchers must select

appropriate methods based on their research questions. Regression analysis, factor analysis, and case studies are among the methods that can be utilized (Hahn et al., 2015). The careful selection, application, and evaluation of these methods are necessary to guarantee the validity and reliability of the research findings.

2.4. Research Model and Variable Selection

The establishment of an appropriate model is vital for the effective analysis and interpretation of ESG performance data. Selecting suitable models can offer reliable decision support for companies and investors (Chatterji et al., 2016). When constructing a model for ESG strategy research, it is essential to consider the relationships between variables and causal connections and choose appropriate modeling techniques. Model testing and refinement should also be conducted to enhance the model's accuracy and reliability. Thus, the development of reasonable ESG strategy research models is a critical aspect of ESG strategy research.

2.5. Selection of Research Objects

The selection of research subjects in ESG strategy research is a critical aspect that demands careful consideration. Research objects can vary in terms of their level and type, such as companies, portfolios, and industries. Choosing appropriate research objects is vital to ensure the reliability, representativeness, and comparability of research findings. When conducting corporate ESG strategy research, factors such as the size, industry, and geography of the company should be considered, and suitable research methods and models must be employed for analysis (Ioannou & Serafeim, 2022). The selection of research objects should be based on the research objectives and issues at hand. A systematic and well-informed selection of research objects is essential to ensure that the results are relevant, credible, and applicable to real-world situations.

In conclusion, the main problems of existing ESG strategy research encompass data quality, indicator selection, research methodology, research model and variable selection, and selection of research objects. Addressing these issues requires careful consideration and methodological rigor to ensure accurate, credible, and applicable research findings. Moving forward, researchers must continue to explore and refine their approaches to ESG strategy research, ultimately contributing to a more comprehensive understanding of ESG strategies and their role in sustainable business practices.

3. Future Trends and Development Directions of ESG Strategy Research

Environmental, social, and governance (ESG) factors have gained significant attention in the corporate world as companies seek to balance their financial goals with their social and environmental responsibilities. Research on ESG strategy has been growing in recent years, but there is still much to explore in terms of future trends and development directions. This paper aims to provide an overview of the key findings in ESG strategy research and to discuss the research implications for the future.

3.1. The Shift from Static to Dynamic Evaluation in ESG Strategy Research

ESG strategy evaluation is moving towards dynamic assessment, becoming a significant trend. To support dynamic evaluation, several measures are required. According to Cunha et al., (2021), enhancing the application of data collection and monitoring technologies is necessary to track and predict companies' ESG performance and trends more accurately. Additionally, more comprehensive and reliable ESG evaluation indicators and methodologies should be explored to better assess future trends and long-term performance. Moreover, data sharing and transparency need to be improved to enable dynamic evaluation, and standardized data sharing and transparency standards should be established to ensure the accuracy, reliability, and

comparability of data. Lastly, ESG evaluations' standardization should be improved to ensure consistency and comparability of evaluations. In conclusion, the shift from static to dynamic evaluation requires in-depth research and practice in areas such as data collection, evaluation indicators, data sharing and transparency, and evaluation standardization to promote ESG evaluation development and progress.

3.2. Enhancing the Evaluation of a Company's Social Impact

Stakeholders are increasingly prioritizing corporate social responsibility and sustainability performance, considering the assessment of a company's social impact as a vital indicator of overall performance (Flammer, 2013). As a result, stakeholders place heightened importance on a company's social responsibility and sustainability performance. To enhance the evaluation of a company's social impact, it is essential to continually improve ESG evaluation indicators, establish an evolving system of social impact, increase social responsibility report disclosure, and strengthen social participation and interaction. Improving evaluation indicators will allow enterprises to better incorporate their positive contributions and influence on society, providing a more comprehensive assessment of their social impact. Moreover, it is crucial to conduct research on the evaluation system of social influence to establish scientific evaluation criteria and methods for measuring enterprises' performance in social innovation, public welfare, and cultural heritage. Additionally, enterprises should increase the disclosure of their social responsibility reports to highlight their social contributions and impact, enhancing transparency and credibility. Finally, enterprises should engage in social welfare undertakings, foster communication and interaction with all sectors of society, and cultivate a positive social image and reputation. By implementing these measures, enterprises' social influence can be evaluated more accurately and comprehensively, promoting the fulfillment of social responsibility and sustainable development.

3.3. Improving ESG Data Collection and Analysis for Better Decision-Making

Accurate ESG data is essential for companies to identify key ESG issues, trends, and corresponding strategies and plans to mitigate potential risks and challenges. It also enhances a company's transparency and credibility, reputation, and attractiveness to investors, customers, and employees (Velte, 2017). To ensure effective and accurate ESG data collection and analysis, several measures need to be taken. Firstly, new data sources such as social media and news reports should be explored to obtain more comprehensive and reliable ESG information. Secondly, machine learning and natural language processing techniques should be employed to improve the efficiency and accuracy of data processing. Thirdly, standardized data collection and quality control mechanisms should be established to ensure data accuracy and credibility. Fourthly, human review and professional judgment should be introduced to correct any errors from machine learning and natural language processing through expert opinions and human review. Finally, industry cooperation and data sharing should be promoted, ESG data platforms and standards should be established, and blockchain and other technologies should be used to ensure data security and privacy protection. These measures can help investors better understand companies' ESG performance and provide more accurate and comprehensive information to support their investment decisions. By improving ESG data collection and analysis, companies can better understand their social impact and performance, and develop more effective ESG strategies and plans to enhance their overall performance and reputation.

3.4. Increased Need for Coordination of ESG Strategies of Multinational Enterprises

In recent years, multinational enterprises have progressively acknowledged the significance of ESG governance. However, to develop efficacious ESG strategies, enhanced coordination of ESG

governance is required across multinational corporations (Zollo, Minoja, & Coda, 2018). Multinational enterprises span multiple countries and regions, each possessing distinct ESG standards and requirements. Insufficient coordination may result in companies adhering to varying ESG standards and requirements across different countries, consequently increasing costs and risks. Furthermore, multinational enterprises have significant social and environmental impacts globally, and harmonizing ESG governance can facilitate better management and response to these impacts, protecting environmental and social stability. Coordinated ESG governance can also enhance the reputation and credibility of enterprises on a global scale, strengthening investors' and consumers' trust and support for them. Therefore, multinational enterprises should prioritize strengthening international cooperation, improving transparency, enhancing employee awareness, strengthening internal control, supporting ESG investment, and working together to promote more coordinated and orderly ESG governance among multinational enterprises.

3.5. ESG Investment to Create Long-term Value for Investors

Investigating the role of ESG factors in investment decisions constitutes a crucial area for future research. Studies ought to examine the relationship between ESG performance and investment decisions, as well as the potential of ESG strategies to generate long-term value for investors. Furthermore, research should explore best practices and strategies for integrating ESG factors into investment decisions and portfolio management (Friede et al., 2015). The majority of studies demonstrate a positive correlation between ESG performance and financial performance, suggesting that incorporating ESG factors into investment decisions may potentially result in improved financial performance and long-term value creation for investors. This research could help enhance the understanding of how ESG considerations can contribute to sustainable financial performance and guide investors in making informed decisions, ultimately promoting responsible and sustainable investments.

In conclusion, the future of ESG strategy research lies in exploring dynamic evaluation, enhancing social impact assessment, improving data collection and analysis, coordinating multinational ESG strategies, and understanding the role of ESG factors in investment decisions. By critically analyzing these trends and integrating them with existing literature, researchers can contribute to a more comprehensive understanding of ESG performance and its implications for businesses and investors.

4. Conclusion

Through a comprehensive review and analysis of the existing literature on ESG strategy, this study has underscored the importance of ESG factors in determining the long-term development and investment performance of companies (Friede et al., 2015). Incorporating ESG factors into corporate strategies can not only enhance the overall performance and stability of a company but also contribute to sustainable development. Research has also indicated that investment strategies prioritizing ESG factors can result in better risk management and long-term returns (Khan et al., 2016). However, the implementation of ESG faces various challenges and controversies, such as difficulties in quantifying ESG factors, dealing with incomplete and uncertain data, and navigating the diversity of ESG criteria and assessment systems (Revelli & Viviani, 2015). To surmount these obstacles, ESG research and practice necessitate a collaborative effort, drawing on interdisciplinary expertise and skills (Whiteman et al., 2013). In summary, this review emphasizes the substantial impact of ESG factors on the long-term success of companies while stressing the need for interdisciplinary collaboration to address the challenges of ESG strategy research and practice.

In the context of ESG strategy, successful implementation demands the support and commitment of senior leadership (Galbreath, 2010). This can be achieved by establishing a

systematic framework and process, setting measurable objectives and targets, fostering effective communication and collaboration mechanisms with stakeholders (Schaltegger et al., 2016), and constructing a comprehensive risk management system (Gunningham et al., 2003). It is also crucial to incorporate ESG concepts into the organization's daily operations to ensure effective implementation and the realization of the organization's medium to long-term development value (Lozano, 2015). Moreover, ESG strategy implementation calls for continuous attention and improvement to adapt to the ever-evolving ESG landscape and unlock the strategic significance and long-term development potential of ESG strategy for the organization (Orlitzky et al., 2011).

Although current ESG strategy research has limitations, the harmonization of ESG standards and increasing investor demand for ESG investment suggest that ESG strategy will become a vital factor in corporate competition (Clark et al., 2015). Additionally, the integration of new technologies, such as big data and artificial intelligence, into ESG investment will enable improved collection and analysis of ESG data (Roca & Searcy, 2012). As ESG investment increasingly concentrates on corporate social responsibility and environmental protection, it will propel companies toward sustainable development (Crifo & Mottis, 2016). Therefore, companies must proactively address the limitations in implementing ESG strategies, identify ESG evaluation criteria that suit their needs, and invest adequate resources and efforts to ensure the achievement of long-term strategic goals, guaranteeing their competitiveness and sustainability in the future (Montiel & Delgado-Ceballos, 2014).

In conclusion, the importance of ESG factors in long-term success cannot be understated. Companies must proactively address the challenges of ESG strategy implementation, invest resources and efforts in achieving their long-term strategic goals, and ensure their competitiveness and sustainability in the future.

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