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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE POLICY INTEGRATION AND IMPLEMENTATION FROM THE PERSPECTIVE OF CORPORATIONS

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Abstract. *Sustainability has taken over the corporate world as wider disclosure and increased commitment is expected around environmental, social, and governance (ESG) matters from companies globally. Firms operating across emerging economies such as Latvia are no exception, and several studies have recently pointed towards increasing ESG consciousness in the Baltics and in the overall Central and Eastern European region – both in stock listed companies as well as financiers.*

Evidence on self-evaluation, motivation, and challenges from the perspectives of these companies themselves in an overall aggregated form is currently still missing. This study, therefore, aims to capture the ESG adoption and implementation practices of companies operating in Latvia.

By analyzing the survey data of 74 medium to large enterprises of various industries and ownership structures, the results indicate an average degree of ESG factor implementation of 5.45 out of 10. Higher scores were attributed to stock-listed, foreign corporation-owned, and state-owned companies, as well as companies with gender-diverse management boards and supervisory boards in place. Sustainability disclosure, especially according to recognized standards, is performed by only 11% of respondents, signaling inconsistencies in materiality assessments and free preference regarding the factors of disclosure, leading to greenwashing concerns.

Keywords: *CEE, ESG, sustainability reporting*

JEL Classification*: G30, G32, Q56*

1. Introduction

Ever since the responsibility for achieving the Sustainable Development Goals (SDG) has been equally delegated to companies, the motivation of companies to consider, implement, and report on their achievements in sustainability has been multiplied. Especially recently, this trend has taken over the corporate world – companies worldwide increasingly pay attention to the evaluation, implementation, and reporting of their sustainability achievements given the ever-rising demand for sustainable investments and increasing regulatory requirements (OECD,

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2020).

The environmental, social, and governance (ESG) factors are increasingly used by companies worldwide as a measure for the various facets of sustainability (EY, 2021). All in all, however, the trend and focus on sustainability matters to such an extent is a relatively recent phenomenon, with a large majority of corporations initiating their sustainability strategies in the last decade, introducing new C-level executives to guide those efforts, setting sustainability targets, and disclosing their results (Ioannou et al., 2016). As such, the level of ESG adoption across corporations is also still far from being unified – there are differences across stock listed and privately held companies, and across companies of various geographies, sizes, and financial strengths (Yu & Luu, 2021). While the European Union is generally in pole position in terms of existing regulations and efforts in corporate sustainability encouragement, Latvia, like other Central and Eastern European (CEE) countries, is still a developing economy in terms of ESG. Although there is evidence that a share of companies are already actively pursuing endeavors in strengthening their sustainability behavior, the degree of ESG compliance and reporting relative to Western Europe and Scandinavia, in particular, is assumingly lower (Deloitte, 2020)

Academic research helping to deeper understand implementation practices and potential challenges is scarce and fragmented. While there is recent previous evidence on the ESG disclosure levels of Baltic stock-listed companies (Zumente et al., 2020), stock-listed companies only constitute an insignificant share of the overall Latvian corporation universe. As of 2021, of the hundred largest companies as measured by revenue, only five were stock market listed and therefore had implied motivation towards ESG disclosure (Prudentia, 2021). The remaining share consisted of large state-owned companies, branches of international company groups, or privately held companies, the sustainability assessment of which has so far not been academically analyzed.

To bridge the identified gap in the academic literature, this study seeks to assess the current status quo of ESG implementation. Contrary to the analysis of secondary sources, this research seeks to understand and explore the views and assessments of these companies themselves. This approach, differing from secondary source analysis, allows for a deeper exploration of the drivers, challenges, and motivation for the adoption of sustainability principles.

The chosen methodology was based on a dataset gathered from a survey. A questionnaire consisting of 20 multiple-choice and closed-ended questions was distributed to 200 medium and large companies operating in Latvia, as measured by revenue in 2019. An opinion poll addressed the assessment of ESG familiarity, the degree of specific ESG implementation steps, the identification of the key drivers of sustainability factors, as well as the detection of the challenges that companies might experience. In total, 74 responses were received for the survey – a response rate of around 37%. When measuring the total revenue of the companies included in the final sample, this amounts to more than 12bn EUR, representing around 20% of the total revenue generated by all of the companies registered in the country (Central Statistics Bureau, 2021). To aid the interpretation of these results, three in-depth interviews were conducted with respondents representing various company ownership types.

This paper provides multiple contributions to the academic literature. Firstly, it contributes to the existing scholarly research which aims at describing ESG implementation practices – in this case, with respect to a specific CEE country. Secondly, by addressing the shortcomings and challenges highlighted by this research, policymakers and business practitioners can explore ways in which to foster wider adoption of ESG policies across companies in CEE countries by using the example of Latvia. Furthermore, these study results might be beneficial for the top-level management of companies to understand the pros and cons of ESG implementation, and may therefore further drive ESG implementation across corporations. In addition, the conclusions of this study can aid financiers and investors in better understanding the status quo of the companies they may potentially invest in.

The remainder of this paper is organized as follows: section 2 summarizes the relevant literature regarding ESG drivers and provides regional background information; section 3 sets forth the methodology employed in this study; section 4 describes and discusses the results; and, finally, section 5 concludes.

2. Literature review

2.1. Firm characteristics and ESG implementation

ESG adoption across corporations globally has surged during the last decade. The KPMG Survey of Sustainability Reporting in 2020 revealed that sustainability reporting by the largest 100 firms across 52 countries has rapidly amplified, from 18% in 2002 to 75% in the 2017 survey, up to 80% in 2020 (KPMG, 2020). Evidence points towards the consideration that sustainability aspects have taken a more important role for managerial decision making (Koval et al., 2021). While earlier research by Ioannou and Serafeim (2012) suggested that political, legal, and labor market institutions are significant factors affecting variations in corporate social performance, more recent evidence by Yu and Luu (2021) – who performed a study of over 1,963 large-cap companies headquartered in 49 countries – found that firm characteristics explain most of the variation in firm ESG disclosure, while differences in country factors such as corruption and political rights explain less. It can be argued that with a wider roll-out of ESG requirements globally, national characteristics become secondary to actual company features. In this case, as this study concentrates on companies operating in a single country, it is more relevant to explore firm-level differences.

One of the key differentiators is firm ownership. As different owners might have various objectives and decision-making horizons concerning sustainability, academic research has confirmed ownership type to be a key differentiating factor (Barnea & Rubin, 2010). A study by Li and Wu (2018) showed that the ownership structure of the company can materially impact the ESG score, finding that private businesses focus significantly more on material ESG aspects and therefore are able to reduce negative incidents. Soliman et al. (2013) indicated a significant, positive connection between sustainability ratings and ownership by institutions and foreign investors, while ownership by managers is negatively associated with companies' social performance ratings. Siew and Balatbat (2016), when evaluating up to 700 NYSE listed companies, also found that institutional ownership has a negative impact on the level of information asymmetry in terms of ESG on stock-exchange listed companies. Overall, stock exchanges are in a unique position to spread the sustainability message and provide additional motivation to companies to disclose their ESG results. As summarized by Bizoumi et al. (2019), in the case of the Athens Stock Exchange, ESG guidelines have been created for listed companies that especially focus on the degree of sectoral specificity and emphasis on materiality endorsed by international sustainability standards like the SASB's industry standards. In addition, Rees and Rodionova (2015) examined the influence of family ownership on ESG rankings. By using a sample of almost 4,000 companies from 46 countries, the authors found that family ownership as well as closely held equity are associated with worse ESG performance. These results hold true across the liberal markets examined by the authors, as well in coordinated market economies. Finally, a report conducted by PwC revealed that state ownership is correlated with better reporting on sustainability targets, showing a significant difference in average ESG scores between state-owned companies (SOEs) and companies without state ownership (PwC, 2015). As summarized by the OECD, around 25% of the largest global companies are state-owned, and thus it should be expected that SOEs themselves are held accountable and run according to exemplary standards of transparency and disclosure in areas relevant to ESG (OECD, 2020).

Ownership board composition is discussed in academic research as a factor impacting the quality of non-financial disclosures (Rao & Tilt, 2016). Cuadrado-Ballesteros and Rodríguez-Ariza (2015) found that the proportion of independent directors at the company's decision-making level positively correlates with the ESG disclosure level. Tamimi and Sebastianelli (2017) found that companies with larger and more diverse boards have more sophisticated sustainability reporting, and they disclose a larger amount of ESG data. Kamarudin et al. (2022), using international data extracted from a global ESG dataset from the Refinitiv database on over 23,000 companies from 37 countries, also found that firms with a better board gender diversity exhibit higher corporate sustainability performance. Interestingly, it was observed that in highly competitive industries the positive relationship between board gender diversity and corporate sustainability performance is weakened. Previous results on the Baltic countries by Zumente and Lāce (2020) indicated that companies with larger boards and companies that have female representatives on their supervisory boards have, on average, higher non-financial disclosures scores, while no correlation was found for gender diversity on management boards.

The importance of the board and its alignment to ESG goals was studied by Crifo et al. (2019). While analyzing the 120 largest French companies by capitalization for the year 2013, they found that corporate sustainability appears to be positively related to internal forces (inside directors).

Finally, the literature suggests a correlation between ESG performance and company size and age. While research on organizational legitimacy implies that larger and more visible organizations experience more pressure to conform to societal expectations (Powell & Bromley, 2015), larger companies are also the most visible to the public (Suchman, 1995) and are likely to be under the most scrutiny. According to Moore (2001), there is a positive relationship between social performance and both the age and size of the company. As Artiach et al. (2010) explain it: larger and more profitable companies are more likely to have the financial resources necessary to optimize the sustainability facets of their operations. To mitigate this effect, the largest companies in terms of revenue were chosen for analysis in this study.

Concerning the company's views and motivation on the subject of sustainability, a recent global board member survey indicated that next to the belief that it is the right thing to do, 78% of respondents also believe that ESG is a key contributor to strong financial performance. With respect to the implementation stage, only 48% of respondents had incorporated ESG standards across all aspects of the organization (Willis Tower Watson, 2020). When discussing the relative importance of ESG for today and the future, the ESG survey by Deutsche Bank highlighted strong growth in importance indices across all ESG dimensions in both US and European markets. The strongest focus was placed on the environmental factors in Europe, while US firms were relatively more focused on social factors (Deutsche Bank, 2021).

2.2. Regional background

Latvia has been a European Union member since 2004 and an OECD member since 2016. While the economy has grown and developed significantly over the years since regaining its independence in 1990, GDP per capita is still one of the five lowest among the EU Member States (Eurostat, 2021). Consequently, several global tendencies in terms of business development, stock exchange expansion, and corporate governance – similarly to other CEE countries – have also been slower than in Western Europe (Bistrova & Lace, 2016). In response to the UN SDG, Latvia has come up with the Sustainable Development Strategy 2030. According to the implementing body, this is a long-term planning document at the highest national level, encompassing the main tasks of the state and society to achieve balanced and sustainable development outlining, among others, such development priorities as: investment in human capital; innovative and eco-efficient economy; and nature as future capital. It also outlines strategic indicators such as: GDP per capita; the ecological footprint; the Human Development Index; and the Global Competitiveness Index (Cross-Sectoral Coordination Centre, 2021).

Although the amount of academic literature on topics around ESG is rising, there is still a lack of a comprehensive overview of implementation practices with respect to the CEE – and, more specifically, the Baltic – region. One piece of research on ESG at the Baltic level which analyzed the survey data of 37 financial market players revealed that around 81% of respondents already use ESG data when evaluating their investments, thus the implied interest or pressure from the side of financiers is already present in this market (Zumente & Bistrova, 2021). From the corporate side, a study performed by Sustinere, a sustainability advisory agency, analyzed the annual reports of the 100 largest companies in Latvia to assess their ESG reporting practices. The results, based on the analysis of 2019 and 2020 reports, suggest that 20% of companies provide systematic ESG reports. Analyzing the quality of ESG reports, the leading companies when differentiated by type of ownership are stock listed companies (62%), which can be explained by stock exchange requirements and pressure from capital providers, as well as state-owned enterprises (50%). Companies of foreign capital (14%) and local capital (5%) show lower results. Latvia's 100 largest companies received an average evaluation score of 20% (Sustinere, 2020).

Further evidence can be found in the Foreign Investor Council in Latvia (FICIL) and KPMG's 2021 joint study on sustainability practices in Latvian companies, in which 12 in-depth interviews were conducted representing IT, real estate management, the production of construction materials, food, retail, and other industries. The sample, however, was limited to multinational groups, for which sustainability strategies have mostly been developed at the group level and therefore the driver of ESG implementation often also lies outside of Latvian borders. The second part of the study included a survey responded to by 51 FICIL members. The outcome revealed that the key areas of focus are employee welfare and safety, the efficient use of natural resources, and the reduction of harmful effects on nature. The greatest challenges faced by companies when preparing a sustainability report included the complicated data gathering process, the effort that is necessary to prepare the report, as well as difficulties in materiality assessments (KPMG & FICIL, 2021).

Research objective and methodology

To obtain an assessment and gather opinions on ESG implementation practices, motivations, and challenges, a questionnaire was distributed to 200 medium and large companies operating in Latvia including the hundred largest companies in terms of revenue. The self-evaluation approach, as used in a previous study of the ESG assessments of Baltic listed companies by Zumente & Lāce (2020), is contradictory to an independent review of ESG disclosures or publicly shared information. However, this approach allows the drivers and barriers behind the decisions that companies make in relation to their sustainability policies to be explored in more depth. The self-assessed views of companies are crucial to explore, as corporations are key players in the economy and thus have a direct impact on the economic climate and the social environment. While it might be argued that companies may tend to exaggerate their successes and achievements, the aggregation of the data can aid in limiting such effects. To obtain less biased answers, survey responses were collected anonymously, and questions were sent via e-mail or Linked-in either to board members or a designated sustainability officer if the company had a publicly assigned one.

First, the questionnaire asked respondents to disclose the demographic data of company size, ownership type, gender diversity in management and supervisory board, and year of establishment. Obtaining this data was important in order to conclude on the potential different impacts that these factors might have on ESG adoption practices. The core part of the questionnaire consisted of twenty multiple-choice and closed-ended questions focusing on: (1) the degree of ESG awareness, implementation status, and disclosure; (2) reasons and responsibilities with respect to the sustainability of operations; and (3) observed obstacles in the ESG implementation journey. In addition, this study sought to capture the estimated degree of importance of ESG in the company's agenda as of now, which might consequently allow for the repeat of such studies to measure this score over time or geographies.

To better explain these results as well as capture any remaining opinions and sentiments, three in-depth interviews with companies of differing ownership types (a state-owned company – SOE – a subsidiary of a wider international group, and a privately held local company) were organized. The interviews were semi-structured, following a set of pre-defined questions in line with the questionnaire but also allowing for more open-ended questions. In the survey, 74 responses were received, revealing a response rate of around 30%. The sum of the total revenue of the companies included in the data set amounted to 12bn EUR, while the total employee number was over 68 thousand. This allows us to conclude that the sample represents a considerable share of the medium-large enterprise universe of the economy, and around 20% of the revenue attained by all corporations operating in Latvia in 2020 (Central Statistics Bureau, 2021).

The descriptive statistics of the final data set, compiled based on the survey results, are presented in Table 1.

Table 1. *Sample statistics*

	Min	Max	Average
Revenue (million EUR)	10	2,800	162
No. of employees	21	12,200	919
Year of establishment	1918	2020	n/a

This sample represents a well-balanced mix of companies operating across all of the largest economic sectors of the economy (see Figure 1). The most-represented sectors include retail and wholesale, transport, and logistics services, as well as manufacturing.

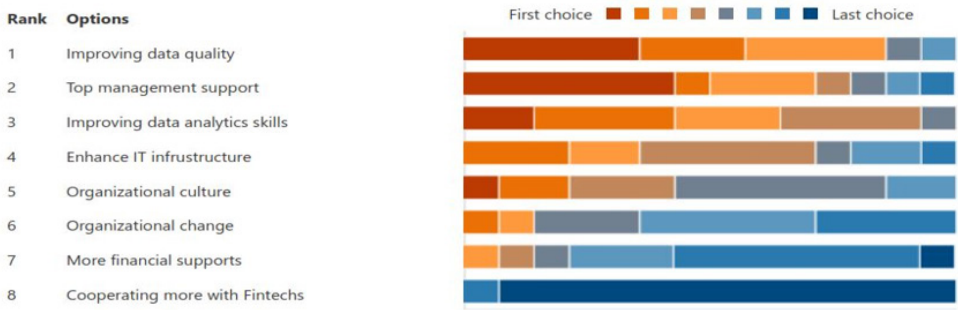

Figure 1. *Dataset by industry (number of companies).*

The companies surveyed also had varying types of ownership. The largest share, or 32% of the companies in the sample, were owned by local private persons, 23% were state-owned companies, 15% represented foreign capital ownership in the form of a multinational company's branch in Latvia, and 12% direct ownership by foreign individuals. Given the low degree of stock traded companies in the region, the sample was composed of only 5% publicly-owned firms. Finally, 12% of the companies had a mixed ownership structure – either combining several of the previous proprietorship types or also involving financial investor presence.

4. Results

Diversity and inclusion are important elements of proper corporate governance guidelines, as recently summarized by the Latvian Corporate Governance Code (Advisory Board for Corporate Governance, 2020). In addition, according to academic research (see Rao & Tilt, 2016), board member gender diversity can have a material impact on non-financial disclosure level and quality. The statistics on board structure show that slightly below half, or 45%, of these companies have no female representatives on their management boards. Of the remainder, the average proportion of women in the decision-making body is 43%. All in all, it can be concluded that a significant share of Latvian companies are still missing out on the proper implementation of this factor.

While the establishment of supervisory boards is not a mandatory requirement for limited liability companies according to local law, the majority (58%) of the surveyed companies have a supervisory board in place.

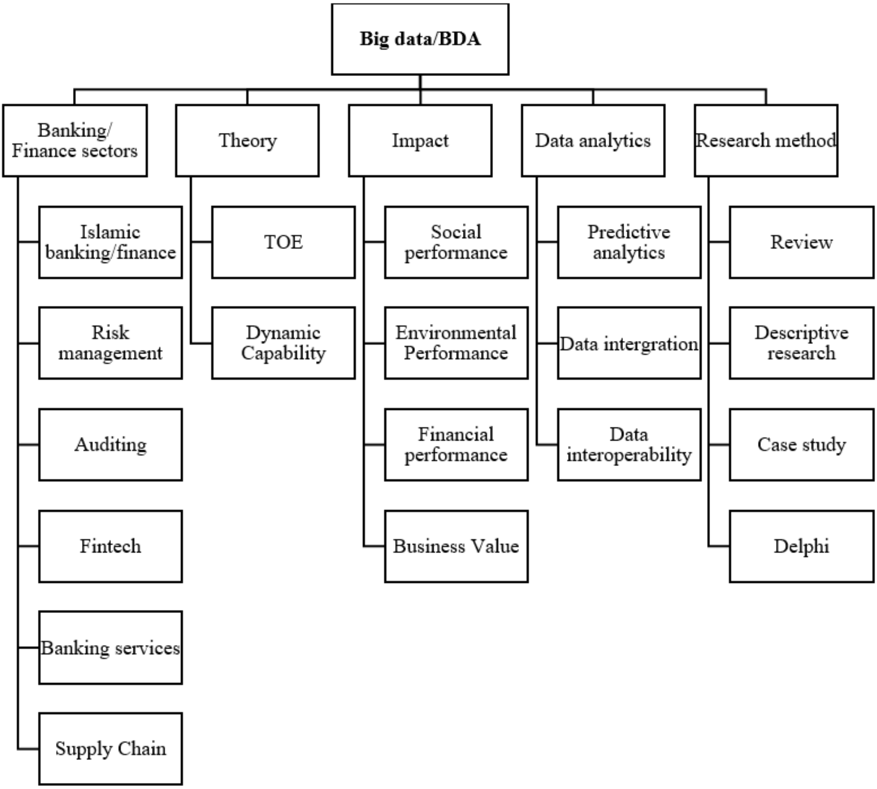

Figure 2. *Supervisory board composition (% of sample).*

Based on Principle #9 of the Latvian Corporate Governance Code, it is suggested that at least half of board members should be independent. Based on the results, 28% of the sample companies have ensured that this is the case, which is a relatively positive result. Only 15% of the companies have no independent members on their advisory boards, indicating that the full potential benefits of having this type of decision-making body in place are not fully realized. Of the 43 companies that have a supervisory board, around half, or 19 companies, have no female representatives.

The average proportion of females in the supervisory boards across the companies that have one in place is 22% (around one female per four men). In relevant previous research regarding Baltic stock listed companies, it was found that 12% of the supervisory board members were women, signaling that the present sample of the largest Latvian companies scores better. As previously found for public Baltic companies, female presence on the supervisory board has a positive impact on ESG disclosure level (Zumente & Lāce, 2020)

Of all the companies questioned, the vast majority, or 82%, indicated that the company's leadership is aware of the ESG concept in general. When asked to evaluate the current degree of ESG factor implementation in the company's operations, the average score on a scale of 1 to 10 was 5.45 (with a median of 6). The indicated score, above the midpoint of 5, shows that generally the cohort of mid to large-size companies operating in Latvia are in the course of sustainability implementation and follow the global trend in this aspect. Only 56% of respondents reported that the ESG topic is within the direct responsibility or oversight of management. This potentially signals that the topic of ESG is still not among the top priorities of company executives. Contrary to the Latvian data, there is a growing international trend of including ESG measures in annual management incentive plans. Based on global data for overall performance assessments, 63% have already factored ESG into annual incentives and 41% have done so for long-term incentives (Willis Tower Watson, 2020).

Interestingly, while the differences in ESG score based on industry classification are not significant, the results differ substantially based on ownership type (see Figure 3). Stock-listed companies, potentially as a result of stock exchange requirements, have the highest level of ESG implementation (average score 8), followed by international company branches (score of 6.7) – where sustainability strategies usually cascade down from global HQ – and state-owned companies (6.3). The poorest performance is assessed in companies owned by local private persons (3.6).

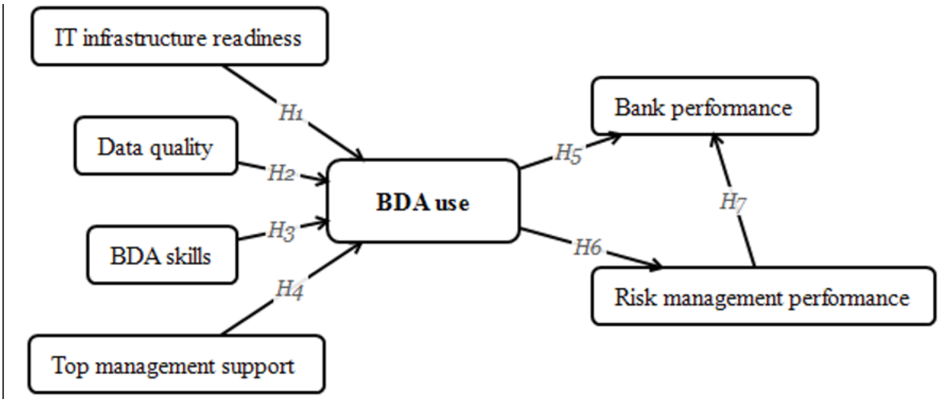

Figure 3. *ESG self-assessment of corporations across ownership types (average score out of 10).*

Consequently, it would appear that ownership is one of the key drivers that can have a material impact on ESG adoption across companies in emerging countries like Latvia, where the global trend is potentially still not so pronounced. This result is also in line with previous studies such as Barnea and Rubin (2010) and Soliman et al. (2013). When asked about the matter, companies themselves confirm this assumption. While the global tendency towards sustainability is mentioned as the main driver (selected by 52% of the respondents), owners' requirements come a close second (40%). Other often-mentioned motivators include management board initiatives and attempts at risk reduction practices (each mentioned by 30% of respondents). Qualitative interviews confirmed that pressure from owners often accelerates the speed of ESG adaption, while disbelief in the value of ESG by owners hinders proper sustainability policy development.

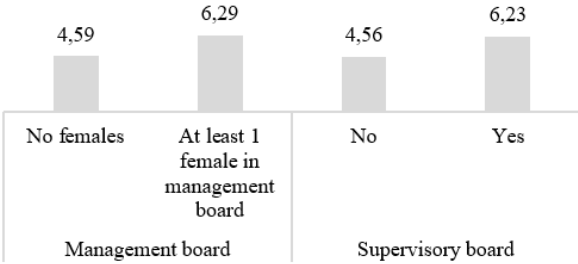

Figure 4. *Average ESG implementation score (out of 10) based on the gender diversity of the management board and the existence of a supervisory board.*

The diversity of the management board and the existence of a supervisory board seem to create a difference in the self-assessed ESG level. As depicted in Figure 4, companies that have no females on their management board seem to rank themselves lower (on average 4.59), while companies that have at least one female on the management board score 6.29. A similar positive effect on ESG assessment of 4.56 versus 6.23 is implied from the existence of a supervisory board.

Practices concerning ESG disclosure are still developing and are behind Western European and US large corporations as more than half, or 52%, of companies make no disclosures on their sustainability progress. Only around one in ten companies (11%) choose to use internationally recognized reporting formats or principles (i.e., Global Reporting Initiative, SDG, etc.), while a wider share of respondents (37%) report their sustainability results in an informal manner – as a section in the annual report or as disclosures on their website. The main motivators behind disclosures are global tendencies and peer pressure from competitors (22%), the requests of owners (16%), and the decision to perform sustainability reporting due to management preferences (9%). As suggested in one of the follow-up interviews, companies might choose to present selected data which are more easily traceable or show more favorable results in order to have reporting formally in place. However, as long as there are no mandatory requirements this approach might lead to a lack of focus on material areas, selective reporting leading to greenwashing concerns, as well as difficulties in data comparison

According to the results (see Figure 5), most companies have more established policies for social and governance factors – especially focusing on the safety and satisfaction of employees, donations, and corporate governance principles. In addition, for several of the most popular S and G metrics there is a gap between the number of companies that have a formal policy in place and the number of companies that actually measure and disclose the respective data.

Interestingly, the environmental factor is approached differently – while only less than one third of the sample pay attention to environmental impact, almost all companies have a formal policy in place and measure the actual data.

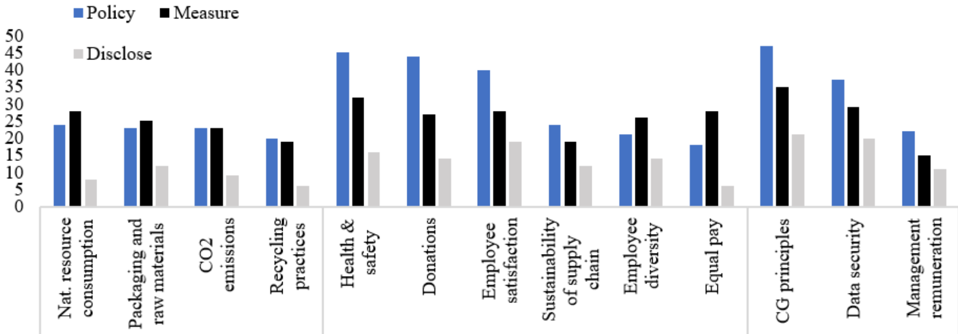

Figure 5. *Approach to specific ESG factors (number of companies).*

Given the pronounced focus on specific S and G metrics as well as the relatively low application of internationally accepted reporting standards, it can be concluded that, for the vast majority, several important steps (i.e., setting material sustainability focus areas, involving stakeholders in prioritization, etc.) have been left out and companies more or less choose to disclose information that is easily reportable or measurable, avoiding areas which are more complex or where favorable results have not yet been achieved.

The results of the study confirm this concern. Materiality assessment helps to understand the key aspects of ESG that are critical for companies operating in various industries and geographies (SASB, 2021). A focus on the material aspects of ESG aids companies in setting the right focus and concentrating on performing towards those factors which can be substantively impacted by the specific company. In a period in which corporations and investors are spending more resources on sustainability issues, the question of which sustainability issues are financially material has become crucial in understanding whether companies are managing their resources efficiently (Rogers & Serafeim, 2019). Several academic papers have reported that only an industry-specific approach to materiality yields economically significant results, meaning that businesses improving their performance on material sustainability issues outperform competitors with declining performance on material sustainability issues (Khan et al., 2016). The results of the survey show that 72% of the respondent companies have not performed a materiality assessment, leading to an overall situation where sustainability priorities can be unclear.

A related concept that is emphasized by internationally recognized reporting standards is stakeholder dialogue – a formal process of understanding the facets of corporate social performance that are important for the company's stakeholders. It can be argued that only then – when a corporation is focusing its attention on the factors that are significant for its stakeholders and that are of material impact for the specific industry in which the corporation operates – can the optimal level of sustainability be achieved. In the Latvian survey, 60% of the respondents admit that they have not performed a stakeholder dialogue to understand the ESG matters that are important for their stakeholders. While stock-listed companies show better results on the completion of these steps (75%), privately held companies perform significantly worse (see Figure 6).

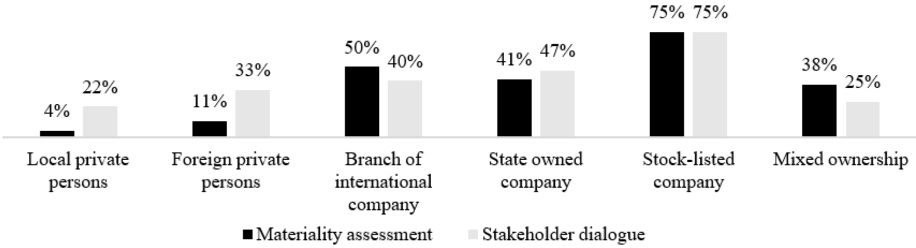

Figure 6. *Share of companies in the sample having performed materiality assessment and stakeholder dialogue.*

Overall, given that the majority of the questionnaire respondents so far have not focused their attention on these two important steps in the sustainability path, appropriate educational measures should be suggested. Based on the additional explanation gained in the in-depth interviews, companies struggle to understand the value of these assessments or do not have a clear view on what would be the best way to practically organize stakeholder dialogue. With respect to further challenges or reasons that hinder proper sustainability practice implementation (see Figure 7), 46.3% mention lack of motivation. In combination with difficulties in measuring ESG factors (mentioned by 31.3%) as well as the costs associated with more sustainable actions and operations (29.9%), these obstacles do not seem to be unresolvable.

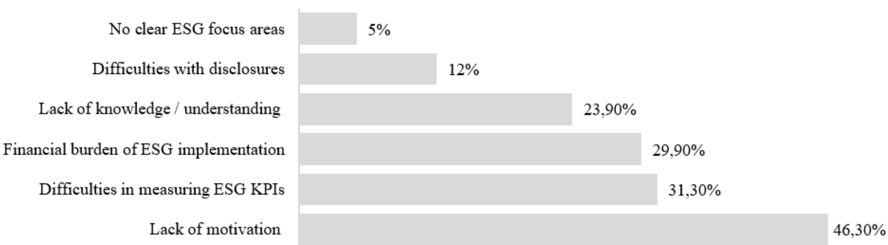

Figure 7. *Challenges in ESG implementation (% of companies that selected each answer).*

While the previously suggested educational measures could tackle the shortcomings in knowledge and understanding (23.9%) and difficulties with disclosures (12%), the lack of motivation calls for broader measures along the lines of certain regulations, positive enforcements, or incentives (i.e., certain tax benefits, lower interest rates from banks, discounts for participation in associations, etc.) for companies that act on sustainability initiatives. Polishing sustainability practice for SOEs could also serve as a positive benchmark and a role model, as suggested by OECD (2020).

Finally, when comparing ESG self-assessment with future estimated sustainability importance, the results once more confirm the perceived lack of motivation (see Figure 8).

Figure 8. *ESG self-assessment today vs estimated importance in the future (average on a scale out of 10).*

The average estimated future ESG importance score of 5.3 (out of 10) is even lower than the average estimated ESG implementation score as of today (5.45), signaling that the majority of companies estimate that their focus on sustainability matters will even slightly decrease. This result is the direct opposite to most global data (i.e., Deutsche Bank, 2021), which suggests that companies tend to expect a higher focus on ESG elements in the future. Overall, this finding supports the recommendation for proper national or international sustainability incentive policies which would enforce corporations to increase the prioritization of aspects of sustainability in the future and therefore achieve a greater contribution to the SDG.

5. Conclusions

The main aim of this study was to explore the corporate viewpoint of ESG implementation by analyzing the case of an emerging economy – Latvia. The survey response data for 74 medium and large companies operating in Latvia were analyzed.

The results reveal that 82% of corporate leaders are aware of the ESG concept. On average, the current degree of ESG factor implementation is evaluated at 5.45 out of 10, indicating that, generally, the cohort of mid to large size companies operating in Latvia are on the course of sustainability implementation and follow the global trend in this regard. Nevertheless, only 56% of respondents report that the ESG topic is within the direct responsibility or oversight of management, signaling that ESG might not be highest on the agenda yet, which is contrary to the international trend of including ESG measures in annual management incentive plans.

This paper provides insights into ESG drivers for Latvian companies, contributing to the growing body of literature exploring the determinants of the sustainability orientation of corporations. This study confirms previous academic evidence of ownership being a key sustainability driver. Stock-listed companies, likely as a result of stock exchange requirements, have the highest level of ESG implementation (an average score of 8), followed by international company branches (6.7) – where sustainability strategies are usually cascaded down from global HQs – as well as state-owned companies (6.3). The poorest performance is demonstrated by companies owned by local private persons (3.6). These self-assessed results are largely in line with the previous external evaluation conducted by Sustinere (2020). Corporations themselves confirm the importance of ownership in their ESG decisions – while the global tendency towards sustainability is mentioned as the main ESG driver (selected by 52% of the respondents), the requirements of owners come a close second (40%).

The present study also points towards board characteristics as being a further important ESG driver. In the case of this study, 45% of the surveyed companies have no female representatives on their management boards. In addition, as it is not a mandatory requirement, 42% of firms have not established supervisory boards. The diversity of the management board and the existence of a supervisory board appear to create a difference in self-assessed ESG level – companies that have no females on their management board seem to rank themselves lower (on average 4.59), while companies that have at least one female on their management board score 6.29. A similar positive effect on the ESG assessment of 4.56 versus 6.23 is implied from the existence of a supervisory board.

This study also sheds some light on local non-financial disclosure practices, indicating that 52% of companies make no disclosures on their sustainability progress. As only 11% of respondents report according to internationally recognized reporting principles, the remaining companies choose to favor disclosure across the easier-reportable or measurable factors for Social and Governance domains, avoiding areas such as Environmental data which are more complex and expensive to measure, or where positive results have not yet been achieved. In addition, these results show that 72% of the respondent companies have not performed a materiality assessment and 60% lack stakeholder dialogue, leading to a frequent situation when sustainability priorities are unclear and selective reporting might be preferred. Without unified reporting requirements, companies can decide themselves on materiality areas and the volume of non-financial information disclosed, leading to significant differences in ESG adoption.

Finally, with respect to challenges which hinder proper sustainability practice implementation, lack of motivation is mentioned most frequently (46.3%), followed by difficulties in measuring ESG factors (31.3%), and the costs associated with more sustainable actions and operations (29.9%). Policy-makers should, therefore, consider that the lack of motivation could call for broader measures along the lines of certain regulations, positive enforcements, or incentives (i.e., certain tax benefits, lower interest rates from banks, discounts for participation in associations, etc.) for companies that act on sustainability initiatives.

It should be noted that the research conducted was solely based on responses received during the survey and subsequent interview process, and that the companies were not externally evaluated in terms of their ESG performance, the combination of which could be suggested for future research. The results of this study could also be interpreted in terms of more specific managerial implications, providing a baseline for companies still embarking on the sustainability journey that are willing to overcome the obstacles that are currently encountered by companies operating in Latvia.

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