Research Review on ESG And ANTI-ESG From Corporate Governance Perspective

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Abstract. In the past two years, with the rise of anti-ESG trend prevailing in the United States and Europe, research on ESG has also soared at the same time. This paper will investigate the research on ESG (Environmental, Social and Governance) factors enlightening companies, and elucidate the reasons behind that emerging trend of anti-ESG, especially shedding light on the corporate governance perspectives. The emergence of anti-ESG trend criticizes that ESG disclosure appears to be merely formalities that do not address the core corporate ethical issues and fails to achieve the genuine sustainability. This paper indicates that research on ESG theory is mostly theoretical, where exists a gap in practical analysis. Further research is required with practical solutions for balancing short-term and long-term interests in ESG practices.

Keywords: ESG; anti-ESG; Corporate social responsibility.

1. Introduction

Nowadays, American culture wars have engulfed ESG investment, with prominent Republican lawmakers arguing that investors are using it as a tool to force a "woke" philosophy on businesses [1]. Why is ESG, a concept that seeks to advance sustainable development and enhance social well-being, so controversial in the US? In political considerations, such as the commercial struggle between the firms represented by their representatives and the inter-party competition in the United States, are significant in shaping this anti-ESG tendency. Certain discussions they have may come out too enthusiastic, however, they are responding to a real problem. The true causes of ESG issues are those problems arise in corporations' ESG application behaviors, and what this paper is primarily aiming to look into these issues.

This article will cover the essential ESG principles in the first section and provide an overview of the relevant research on the positive impacts of ESG integration in businesses. The problems that ESG has in the evolution of corporate governance practices—the root reasons of the anti-ESG movement—will be covered in the second section. In the final section, the author offers some ideas on potential future paths for ESG growth. This paper's major intention is to provide investors as well as different stakeholders who are unfamiliar with ESG a quick overview of the subject's current state while additionally offering a summary of corporations' ESG development.

2. Research on benefits of ESG integration

The concept of ESG was first formally put forward in the Who Cares Wins report in 2004, which has led to the introduction of environmental, social, and governance factors into the guidance of investment and corporate governance. Since then, under the advocacy of all parties, enterprises have increased ESG behaviors [2].

The rise of ESG has profound sociopolitical reasons. The aim is to motivate corporations to shoulder greater social responsibility while minimizing government interference in order to address escalating urgent problems including environmental contamination, wealth inequality, and climate change. In the economic way of understanding, the purpose of the ESG evaluation system is to encourage companies to internalize the externalities of their business behavior on the environment and society as much as possible [3]. To meet the strict standards of ESG evaluation system thus to gain more financial support from the investors and build more trust among stakeholders, corporations' investment in these ESG behaviors will increase, which means the externalities cause by corporations is reducing by themselves. Such reasons for advocating ESG illustrate the importance of this "win-win" strategy for both enterprises and governments, which can maximize the micro-level corporations' long-term value while achieving the macro-level governments' sustainability goals.

Drivers for companies to increase ESG activities are various mainly because of the incentives from financial performance. According to most of the research on this correlation, it shows that ESG activities have a positive influence on the company's financial metrics through various indirect ways [4]. By delving into massive research on the influences that ESG behaviors have on the companies, the author has concluded in the Table 1.

Table 1. Benefits from Sustainable Business Practices Defined at Enterprise Level

ESG behavior		Benefit
Environmental	Disclose environmental information	■ Building great brand image ■ Lower financing/operational cost [5]
	Environment-friendly changes of corporation's products/operating procedures	■ Sustainable development ■ Improve efficiency ■ Saving cost [6]
Social	Engage with stakeholders and create value for them	■ More loyal and unique corporate ecosystem [6] ■ Better recruitment, retention, and morale of employees
	Communicate core sustainability proposition with society	■ Gain policy support ■ Increase consumer loyalty ■ Improved sales and marketing
Governance	Great construction of corporation's management structure	■ Better positioned to manage and mitigate risk [6] while perform social responsibilities

To better understand the benefits that ESG behaviors have brought to corporations, Toyota Corporation is a fitting example to help explaining them vividly.

In terms of environmental levels, Toyota has kept on disclosing its ESG related information. When meeting the strict standards for ESG evaluation, the better ESG performance theoretical speaking has lowered the financing costs for the company [5]. In order to reduce the carbon emissions and generate a reasonable profit for the company to keep on thriving, Toyota keeps on promoting its electric cars though facing pressure of rising production cost of new resource transformation, they choose to making profit by selling an assortment of different resources driven vehicles [7], especially the hybrid electric vehicle (HEV) which makes them stand out from their peer competitors. Achieving the accumulated reduction of GHG (Greenhouse Gas) emissions for 162 million tons worldwide ever since the original Prius's promotion in 1997 while acting as the main profit maker for Toyota [8]. As for the social level, compared to industry peers, Toyota excels in addressing emissions and fuel efficiency, which builds a better brand image for them. As the Consumer Reports Annual Auto Reliability Survey in 2023 shows, Toyota's overall reliability is superb ranking the second under the LEXUX [9]. It assesses various aspects of brand's reliability, for instance, running the road-test, owner satisfaction survey and vehicles' quality test.[9] Letting more people get to know the brand specialties and going public with its production is the best way of doing marketing, this will therefore lead to the increasing sales and, to some extent, increasing loyalty among the consumers. Toyota has also done an excellent job in creating value for its stakeholders. Taking employment as an example, Toyota was awarded the gold prize in PRIDE INDEX 2023 [10], indicating that they did a fantastic job in providing a comfortable working environment for each employee regardless of age, race, gender identity or physiological defect. This has led to building a strong loyalty among employees, and consequently, the efficiency of work shall be improved.

At the governance level, Toyota’s Global Human Resources Department promptly address consultation through the whistle-blowing system through implementing preventive measures, such as training to raise employees’ awareness on human rights and labor affairs, with the aim of reducing human rights risks. They identify the potential risks, assess their potential impact, and implement measures to mitigate these risks. As the half-decrease amount of harassment consolations from 10 to 5 for one year period in 2022 [11]. It brings positive feedback for the company to better manage its sustainability affairs and mitigate various other human-right related risks.

In one word, ESG has helped to mitigate risk, and provided new opportunities for creating value, enhancing reputation, and ensuring the long-term sustainability [12]. All these actions of Toyota resulted in its impressive financial performance. Even though producing vehicles several decades after GM and Ford, Toyota’s market capitalization in 2021 was more than double that of GM’s and Ford is put together [13]. There is always room for improvement though, Toyota excels in conducting Corporate Social Responsibility (CSR) activities that surpass industry standards. Engaging in ESG activities has proven to be a positive investment that yields long-term positive outcomes. Its first sustainability report, published in 2021 [14], along with an analysis of its financial report, as Table 2 demonstrate, indicates a trend of increasing gross profit despite the fluctuating costs.

Table 2. Toyota’s annual financial performance (Billions of yen)

Year	2020	2021	2022	2023	2024
Sales	29866.5	27,214.5	31379.5	37154.2	45095.3
Cost	27467.3	25016.6	28383.9	34429.2	39742.4
Gross Profit	2036.1	2245.2	2995.6	2725.0	5352.9
Margin	6.8%	8.3%	9.1%	6.6%	11%

The extract of the financial reports provides clear illustration of how ESG integration brings benefits to the company. However, despite all the benefits that ESG activities will bring to the company in theory, significant challenges may arise when putting them into practice. One of the most significant issues that ESG has faced is the growing influence of anti-ESG sentiment. The reasons for this will be analyzed in the subsequent section.

3. Research on reasons for anti-ESG trend

Wall Street's numbers give some indication of the "anti-ESG" threat. In the first three quarters of 2023, investors pulled more than $8.2 billion from sustainable funds [15], with U.S. fund managers closing more ESG funds than opening positions for the first time.

The key arguments of the anti-ESG movement can be summarized as follows. Many anti-ESG supporters argue that ESG considerations may divert resources away from profit-oriented businesses, thus interfering with market efficiency, thereby interfering with market efficiency and leading to market distortion. They also believe that ESG initiatives will depress the short-term economic growth and job creation.

The reasons behind the anti-ESG trend are complex. Anti-ESG sentiment has been utilized as a weapon for political parties in the competitive landscape in the United States. However, the issues that have arisen from ESG’s practical implementation in business have provided the foundation of dissenting opinions. Such issues can be distilled into the following three points.

3.1. Lack of Unified ESG Standards and Evaluation System

In recent years, more investment institutions and academic research institutions have introduced ESG rating standards with different criteria [16] making it challenging for ESG practice to establish a universally recognized authoritative influence. There exists a significant disparity in the rating results issued by different ESG rating agencies [17].

According to the ESG valuation organizations' information on Toyota's 2023 ESG scores, there is a discrepancy in the results for Toyota's ESG performance. The statistic by SUSTAINALYTICS shows, Toyota was given a score of 29.4 out of the full mark of 90 [18], which means that its ESG risk is at a medium level. Conversely, LSEG, another ESG evaluation organization, has marked Toyota's ESG performance as 'Excellent' with the score of 81 out of 100, while MSCI rates Toyota as 'Average' with an 'A' [19]. The inconsistency in rating 29.4 form SUSTAINALYTICS, 81 from LSEG and 'A' form MSCI, confuses the rating reports' users who are not familiar with each institution's evaluation criteria. It is difficult to convert between different evaluation system [20], which further underscores the necessity of universal ESG standard system. The use of diverse rating standards by companies will make the comparison of ESG levels impossible, which can diminish the influence of their ESG reports and will increase the financing constraints [4].

3.2. Pressure form ESG Disclosure Requirements

The mandatory disclosure of ESG has failed to yield substantial benefits for the actual operation and management improvement of some enterprises, and even gradually evolved into an unaffordable corporate governance cost [21]. At the same time, more ESG disclosures will lead to an increase in the diversity of ESG standards, thus exacerbating the issue of the impact of ESG reporting [4].

This phenomenon can be explained by the "Carroll's pyramid" [22], which is a framework seen from stakeholders' perspective instructing the company to fulfill their social responsibilities. This pyramid singles out the four aspects of CSR and illustrate the layer-by-layer relationship between them, and it is arranged in the sequence of Economic Responsibilities, Legal Responsibilities, Ethical Responsibilities and Philanthropic Responsibilities from the bottom to top. The former two responsibilities are what the society required, while society is expecting for a corporate to perform the third ethical level and desiring for their philanthropic behaviors. Basing on this theory, some companies are attempting to ascend to higher levels of ethical and philanthropic responsibilities at the expense of economic and legal responsibilities, which is the foundation level supporting the other two higher ties. Without sustainable profitability, organizations will neither able nor willing to engage in the 'higher level' activities like philanthropy.

IKEA, for instance, introduced its People & Planet Positive initiative in 2012 [23]. IKEA has focused its attention on the complete value chain, covering raw materials to final consumers. IKEA uses sustainable resources in the production of about 60% of its goods [24], which is beneficial for the environment. But in 2020, it was discovered that IKEA was selling beach chairs constructed from wood that had been unlawfully taken in Ukraine's Carpathian forests [25]. This issue of legal duty failure went contradictory to IKEA's ESG report [26] and damaged the company's reputation. Furthermore, Toyota doesn't always follow through on its commitments. In February 2024, they were caught cheating on engine emissions testing [27]. In addition, it wasn't the only occurrence of cheating.

These fraudulent behaviors suggest that certain businesses and investors are excessively eager on proving their commitment to ESG, with more pursuit on their involvement in ESG matters than in productivity, capital allocation, and strategy, giving corporations an illusion for their success on ESG indicators. Under certain circumstances, this might result in ESG gaining priority at the expense of long-term value, as was the case with Danone and the other ESG funds that underperform [29]. Businesses are required to fulfill all duties simultaneously, as opposed to carrying out the four parts of CSR in a hierarchical or sequential manner. Despite being represented as a distinct category of CSR in Carroll's pyramid, ethical responsibility should really be viewed as an element that penetrates the entire pyramid [22]. When assessing CSR activities, the appropriate approach is to evaluate both the full costs and benefits using an NPV (Net Present Value) analysis and calculation, and to consider the alignment with the organization's core values [13].

3.3. Conflict between Short-term Interest and Long-term Interest

The external pressure from ESG rating can create incentive distortions and motivate enterprises to engage in opportunistic behaviors, such as "green-washing" [30]. In the course of business, there is often a conflict between short-term interests and long-term sustainability. A PwC (2022) study revealed that 92% of large U.S. companies and 72% of large U.K. firms are using ESG metrics in their incentive plans [31].

However, if some companies overlook the nature of ESG and focus merely on incentives, the pursuit of short-term profits will jeopardize the company's long-term sustainability. McDonald’s changed its logo in Europe by adding a green element prior to the implementation of CSR initiatives. While corporate philanthropy can enhance a corporation’s brand or reputation, it does not necessarily contribute to the improvement of the corporation’s ESG performance. Some companies, like McDonald’s, which established the Ronald McDonald House Charities to offer support to the society, may utilize philanthropy as a form of green washing. If McDonald’s and the similar fast-food providers are willing to improve their ESG performance, they should address the environmental and social problems they have indirectly contributed to, such as the welfare of the animals in the supply chain [32], rather than engaging in green-washing tactics. Similarly, Coca-Cola faced a lawsuit from Earth Island Institute for alleged green washing, despite its claims of being a sustainable and environmentally friendly corporation, it is one of the world’s top contributors to plastic waste [33]. Such discrepancies not only increase the company's own governance costs and affects its operational performance, but also proves a lack of responsibility owed to investors and society, fundamentally contravenes the core concept of ESG sustainable development and leading to ESG bubbles.

Despite the opposition from some countries and organizations in recent years, most opponents still acknowledge the fundamental concept of sustainable development. To further explore how the world should respond to the anti-ESG trend, relevant research on ESG itself becomes essential. In-depth research on enterprise ESG governance will become an important theoretical basis for the future development direction of ESG.

4. Outlooks on ESG future development

By delving into ESG related research, it reveals that there still exist a large studying gap in the understanding of ESG and ESG practices. Since the fundamental issue in reversing the anti-ESG trend lies in addressing the problems that have arisen within ESG frameworks, thus it is essential for further study in developing a universally accepted ESG evaluation system and establishing ESG related legislation which provides incentives without overburdening while improving the ethics of corporations.

Considering how corporations should act on current anti-ESG trend, many specific ESG performance developing directions given by researchers are as follows. Developing a separate net-zero transition rating to measure how firms are addressing climate change risk and decoupling the mitigation of the ESG risks would be a crucial task for further ESG development [34]. More important, the evolution of ESG demands a strategic shift towards long-term goals, with a primary focus on facilitating a just transition towards a low-carbon economy. This shift necessitates a fundamental realignment of ESG principles, placing ethical considerations at the forefront of all its operations, which is essential for speeding up the progress towards Sustainable Development Goals and preventing further ecological deterioration [35]. The dissenting opinions on ESG are now urging corporations to see through the essence of ESG and prioritize the core objective of ESG in their business.

However, after delving into relevant research and report, it shows that most of the research are focusing on the theory rather than practical analysis though there still has a research vacancy in the ESG theory concept. What the future development of ESG needs is the more practical research on finding a better solution for balancing ESG behaviors’ short-term and long-term interest.

5. Conclusion

This review clarified the benefits of ESG to corporate governance by analyzing several cases of different corporations, systematically assessing the underlying causes of the anti-ESG sentiment at the corporate governance level, and deeply analyzes key issues such as lack of uniform standards, formalistic tendencies, and conflicts between short-term interests and long-term sustainability. However, there still lack of practical research for corporations' ESG behaviors, especially on the interest's trade-off cases. And this is also where the future research should put more attention on.

Addressing these issues will require further research and innovation. Considering this, the author posits that innovation is the key driving force to promote the in-depth development of ESG concept. It is imperative to look beyond conventional and singular evaluation approaches, to proactively explore innovative solutions, and to solve the problems existing in corporate ethics. This requires not only the efforts of the enterprises themselves, but also the participation and promotion of the government, regulators, investors, and the public.

Though the promotion and implementation of ESG is encountering scrutiny and challenges from distinct aspects, the concept of sustainable development it embodies continues to garner broad recognition and acceptance all over the world.

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