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ESG MANAGEMENT AS A DRIVER OF SUSTAINABLE TRANSFORMATION OF ENTERPRISES AND ORGANIZATIONS

ESG-МЕНЕДЖМЕНТ ЯК ДРАЙВЕР СТАЛОЇ ТРАНСФОРМАЦІЇ ПІДПРИЄМСТВ ТА ОРГАНІЗАЦІЙ

Diugowanets Olesia
PhD in Economics, Associate Professor,
Head of Department of Business Administration, Marketing and Management,
Uzhhorod National Universit
ORCID: https://orcid.org/0000-0003-2933-4306

Kulinich Tetiana
PhD in Economics, Associate Professor,
Associate Professor of the Department of Management of Organizations,
Lviv Polytechnic National University
ORCID: https://orcid.org/0000-0003-0110-7080

Popovych Olesia
PhD, Assistant of the Department of Management,
Management of Economic Processes and Tourism,
Mukachevo State University
ORCID: https://orcid.org/0000-0001-7563-8277

Дюгованець Олеся Михайлівна
Державний вищий навчальний заклад
«Ужгородський національний університет»м

Кулініч Тетяна Володимирівна
Національний університет «Львівська політехніка»

Попович Олеся Петрівна
Мукачівський державний університет

Today, there is an observable intensification of climate change, environmental degradation, social disparities, and a decline in trust toward traditional business practices. In response to these threats, society, institutional investors, government regulators, and international organizations are increasingly formulating demands for greater transparency, ethics, and responsibility in entrepreneurial and commercial activities. In this context, a need emerges to transform management practices based on the principles of sustainable development, particularly through an ESG-oriented approach that harmonizes environmental, social, and governance aspects within development strategies. The purpose of the article is to explore ESG management as a driver of sustainable transformation in enterprises and organizations. Thus, the prospects for further research lie in a deeper analysis of the mechanisms for integrating ESG principles into the strategic management of enterprises across different industries, assessing their impact on financial and economic outcomes, and developing indicators for measuring the level of sustainable business transformation.

Keywords: management, environmental neutrality, strategic planning, operational processes, management system.

Сьогодні спостерігається загострення кліматичних змін, посилення соціальних диспропорцій, деградація довкілля та зниження довіри до традиційних бізнес-практик. У відповідь на ці загрози суспільство, інституційні інвестори, державні регулятори та міжнародні організації дедалі активніше формулюють вимоги щодо підвищення прозорості, етичності та відповідальності підприємницької та комерційної діяльності. У цьому контексті виникає потреба сталої трансформації менеджменту шляхом впровадження принципів ESG, що забезпечують узгодження екологічних, соціальних та управлінських аспектів у стратегії розвитку. Відтак, метою статті є дослідження ESG-менеджменту як драйверу сталої трансформації підприємств та організацій. Результати дослідження показують, що на системному рівні ESG-менеджмент діє як каталізатор сталої трансформації, сприяючи переходу від традиційних бізнес-моделей, орієнтованих виключно на прибуток, до сталих, орієнтованих на баланс економічної ефективності, екологічної відповідальності та соціальної справедливості. Доведено, що сталий перехід в ESG-менеджменті означає системний зсув до довгострокової стійкості, екологічного балансу та соціальної відповідальності. Констатовано, що такий підхід сприяє формуванню бізнесу, який є екологічно та соціально відповідальним і розвивається у «блакитному океані», що передбачає створення нових цінностей, інноваційних можливостей. Дослідження також засвідчує, що впровадження ESG-менеджменту сприяє сталій трансформації шляхом інтеграції принципів сталого розвитку у робочі стратегії. Це, своєю чергою, зумовлює: зниження екологічних та соціальних ризиків, що впливають на фінансову стабільність; підвищення довіри інвесторів завдяки прозорості, етичності та підзвітності управлінських рішень; зміцнення репутаційного капіталу та конкурентних переваг; активації інноваційних процесів, спрямованих на екологізацію виробництва та розвиток людського потенціалу. Таким чином, перспективи подальших досліджень полягають у глибшому аналізі механізмів інтеграції ESG-принципів у стратегічне управління підприємств та організацій, оцінці їхнього впливу на фінансово-економічні результати та розробці показників для вимірювання рівня сталої трансформації бізнесу.

Ключові слова: менеджмент, екологічна нейтральність, стратегічне планування, операційні процеси, система управління.

Problem statement. Today, there is a growing intensification of climate change, environmental degradation, social disparities, and a decline in trust toward traditional business practices. In response to these threats, society, institutional investors, government regulators, and international organizations are increasingly formulating demands to enhance transparency, ethics, and accountability in entrepreneurial and commercial activities. Under such conditions, classical management models – including Taylor's scientific management, Fayol's administrative model, as well as modern approaches focused on maximizing shareholder value – which primarily emphasize short-term financial gains, are gradually losing their effectiveness. They do not ensure adaptability, resilience, and long-term value for all stakeholders.

In this context, there arises a need to transform management based on sustainable development principles, particularly emphasizing ESG orientation through the harmonization of environmental, social, and governance aspects within development strategies. Contemporary studies by McKinsey & Company (2020, 2022, 2024) and Deloitte (2023) indicate that the transition to ESG management enables the minimization of risks associated with environmental disasters, labor conflicts, or governance scandals, while opening new opportunities for innovation, access to capital, and reputation enhancement.

Analysis of research and publications. The problems and specific features of enterprise management based on ESG principles have been thoroughly examined in the works of domestic scholars, including T. Livoshko [2], A. M. Tkachenko, E. O. Kolesnyk [6], O. Sadchenko, I. Haivoronska, V. Shmahina [5], N. V. Pavlikha, O. A. Korneliuk, and I. O. Tsymbaliuk [3]. These researchers take a systematic approach to uncovering the conceptual foundations of ESG management, analyzing its impact on the strategic development of enterprises, the formation of a corporate culture of responsibility, the improvement of governance transparency mechanisms, and the reduction of environmental and social risks in the course of business activity.

Identification of previously unresolved aspects of the overall problem. At the same time, despite the growing attention to the concept of ESG management, its role as a driving force of sustainable transformation in enterprises and organizations has not yet received sufficient scientific justification or empirical verification.

This creates several problems in the theory and practice of modern management, including:

– the lack of a comprehensive theoretical and methodological framework for assessing the effectiveness of ESG management in the context of sustainable enterprise transformation;

– insufficient development of tools for integrating ESG principles into strategic and operational management systems;

– a limited amount of empirical research confirming the impact of ESG factors on enterprise competitiveness, investment attractiveness, and reputational capital.

These issues highlight the need for an in-depth study of the role of ESG management as a systemic factor in the sustainable transformation of enterprises.

Formulation of the article's objectives. Accordingly, the purpose of this article is to examine ESG management as a driver of sustainable transformation in enterprises and organizations.

The paper main body. Within the framework of the initiated study, it is emphasized that ESG management represents a set of principles, methods, tools, and forms of managing an enterprise or organization that harmonizes the environmental (E), social (S), and governance (G) dimensions of activity and integrates this harmony into strategic planning, operational processes, and the overall management system.

It is appropriate to agree with the statements of Kostiuchenko V., Pashchenko I., and Sakovets I. [1], who note that this means that, in the decision-making process, a business entity takes into account not only financial indicators but also the following factors:

– The impact of its activities on the environment, including greenhouse gas emissions, energy efficiency, and waste management.

– Social aspects such as working conditions, wage levels, gender equality, human rights, and community engagement.

– Governance standards, which encompass corporate ethics, transparency, anti-corruption measures, and management structure.

Therefore, at the systemic level, ESG management acts as a driver of sustainable transformation in enterprises and organizations (see Figure 1), as it ensures the transition from traditional business models focused solely on profit to sustainable development models based on a balance of economic performance, environmental responsibility, and social equity.

At the same time, sustainable transformation is a deep, systemic process of transforming the activities of an enterprise or organization with the aim of ensuring long-term stability, ecological balance, and social responsibility, allowing for business development without negative consequences for future generations. Such a business, in particular:

1. Is environmentally and socially neutral, meaning it minimizes negative impacts on the environment and society through the implementation of principles of responsible resource consumption, social justice, and ethical management (Sadchenko O., Haivoronska I., Shmahina V. [5]).

2. Develops in an environment where competition gives way to the creation of new values, innovative opportunities, and long-term sustainable growth, forming a “blue ocean” space for sustainable business development (Tkachenko A. M., Kolesnik E. O. [6]).

Indeed, a primary consideration in sustainable transformation is assessing the impact of enterprises’ and organizations’ activities on the environment.

In ESG management, this is achieved through a focus on the systematic monitoring and evaluation of environmental aspects of production and management processes, in particular [1; 5]:

– Greenhouse gas emissions – including carbon dioxide, methane, nitrous oxide, and others contribute to climate change and global warming.

– Use of natural resources – including energy resources (water, gas, oil, electricity), mineral and biological resources, with emphasis on efficient consumption and renewable sources.

– Waste management – including the volume of waste generation, recycling, disposal, and safe storage of industrial and household waste.

– Compliance with environmental safety standards – adherence to legal requirements, international standards (ISO 14001, etc.), environmental regulations, and audits.

– Implementation measures to reduce negative environmental impact and enhance corporate environmental responsibility include greening production, adopting green economy technologies, decarbonizing, and promoting an environmental culture among employees.

A more detailed characterization of the focus areas that ensure the consideration of enterprises’ and organizations’ environmental impact in ESG management is presented in Table 1.

In fact, the focus on systematic monitoring and evaluation of the environmental aspects of enterprises’ and organizations’ activities within ESG management contributes to the formation of their environmental responsibility [3]. Through careful consideration of greenhouse gas emissions, rational use of natural resources, effective waste management, and strict compliance with environmental standards, these entities can minimize their negative impact on the environment. A notable example is the Ukrainian startup Releaf Paper, which produces

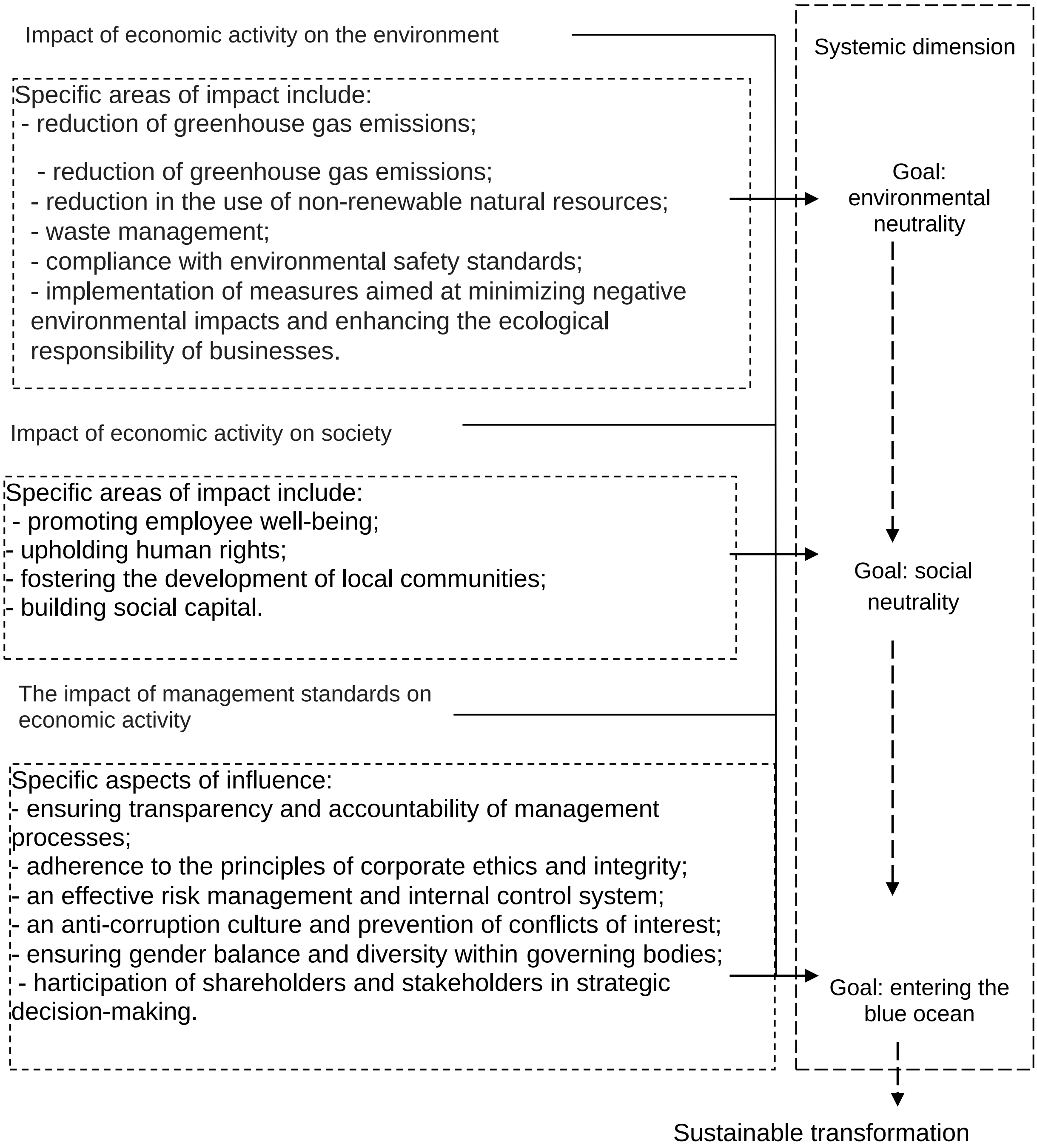

Fig. 1. Formalization of the role of ESG management as a driver of sustainable transformation of enterprises and organizations

Source: compiled by the authors based on [1–3]

paper from fallen leaves without using wood. By implementing environmentally oriented approaches in its production processes, the company is gradually reducing CO_2 emissions and water consumption, which aligns with the principles of ESG management [5–6].

At the same time, it should be emphasized that the benchmark for considering the environmental impact of enterprises' and organizations' activities within the ESG management system is the transition to a fully environmentally neutral business. This is due to the fact that such a business has no negative impact on the environment, maintaining a balance between economic activity and natural ecosystems through zero or compensated emissions, rational resource use, and closed-loop production cycles.

Table 1

Characteristics of focus areas ensuring consideration of the environmental impact of enterprises’ and organizations’ activities in ESG management

Direction of impact	Focus areas	Examples of considering environmental impact	Optimal impact outcome
Greenhouse gas emissions	Monitoring and reduction of CO_2, CH_4, N_2O, and other emissions contributing to climate change	Implementation of energy-efficient equipment, use of renewable energy, GHG reporting	A business that minimizes its negative environmental impact to zero or offsets it.
Use of natural resources	Efficient and rational use of water, energy, minerals, and biological resources	Transition to LED lighting, reduction of water consumption, use of secondary raw materials	
Waste management	Reduction, recycling, utilization, and safe disposal of waste	Waste sorting and recycling, composting, implementation of a “zero waste” policy	
Compliance with environmental safety standards	Compliance with legislation, international standards, and environmental regulations	Certification under ISO 14001, environmental audits, regular compliance inspections	
Measures to minimize impact	Implementation of “green” technologies, decarbonization, and the promotion of environmental awareness and culture	Installation of solar panels, employee training on environmental practices, reduction of carbon footprint	

Source: compiled by the authors based on [1; 3; 5–6]

For example, the carpet manufacturer Interface (USA) achieved a 74% reduction in its carbon footprint in 2019 during the production of its products (carpet tiles, LVT, and rubber flooring) and reduced greenhouse gas emission intensity by 96% at its manufacturing sites compared to the 1996 baseline. In September 2022, the company obtained carbon neutral company status in accordance with the international standard PAS 2060, confirming the achievement of a net-zero balance between greenhouse gas emissions and offsetting measures. This result became possible through the implementation of a closed-loop production cycle (use of recycled or bio-based materials), the adoption of renewable energy sources, and systematic life cycle assessment (LCA) of its products.

In the process of sustainable transformation, particular importance is placed on considering the social impact of the activities of enterprises and organizations, as it is the social component that ensures the formation of trust, enhances reputational resilience, and supports the long-term effectiveness of business. Within the framework of ESG management, this is implemented by focusing business efforts on the following areas [2; 4]:

– Promoting employee well-being, including creating safe and comfortable working conditions, ensuring fair compensation, providing opportunities for professional development, and supporting work-life balance.

– Respecting human rights, including preventing discrimination and forced labor, ensuring equal opportunities, and promoting gender parity.

– Developing local communities, including supporting social initiatives, partnering with local authorities, and investing in social infrastructure and education.

– Building social capital, which involves establishing long-term relationships of trust between the enterprise, employees, consumers, and society.

A more detailed characterization of the focus areas that account for the social impact of enterprises’ and organizations’ activities in ESG management is presented in Table 2.

Thus, the social component of ESG management guides enterprises and organizations toward building sustainable relationships with employees, partners, and local communities. The identified focus areas – promoting employee well-being, respecting human rights, developing local communities, and building social capital – contribute to the gradual enhancement of corporate social responsibility.

Table 2

Characteristics of the focus areas ensuring consideration of the social impact of enterprises' and organizations' activities in ESG management

Direction of impact	Focus areas	Examples of considering social impact	Optimal impact outcome
Promoting employee well-being	Ensuring decent working conditions, competitive compensation, opportunities for professional development, and a safe working environment	Implementation of equal pay policies; health insurance; training programs for skill enhancement; flexible work schedules.	Business activities without negative impact on society and the communities in which it operates
Respecting human rights	Guaranteeing equal opportunities, preventing discrimination, and adhering to ethical standards in relations with employees and partners	Codes of ethics; anti-discrimination policies; supplier audits on labor rights; prohibition of child labor.	
Developing local communities	Promoting the socio-economic development of the regions where the enterprise operates, supporting educational, environmental, and cultural initiatives	Investments in local infrastructure projects; support for schools and hospitals; employee volunteer programs.	
Building social capital	Fostering trust between business, society, and the state; developing partnerships, transparent communication, and reputational responsibility.	Sustainability reports; regular dialogue with stakeholders; participation in social initiatives and coalitions.	

Source: compiled by the authors based on [1; 4-5]

A notable example is Microsoft, which, through the implementation of such approaches, strengthens trust in its business, enhances its reputational value, and increases its competitiveness in the market.

At the same time, it should be emphasized that the benchmark for considering the social impact of enterprises' and organizations' activities within ESG management is the transition to social neutrality. Socially neutral business is a concept that entails conducting operations without negatively impacting society and the communities in which the enterprise operates [2]. Although no enterprise or organization in the world officially holds the status of "socially neutral" – at least in terms of international ESG or sustainability standards (GRI, SASB, ISO 26000, UN Global Compact) – there are business entities, such as Unilever (United Kingdom–Netherlands) and Novo Nordisk (Denmark), that come closest to this concept. Such businesses promote the long-term well-being of society without harming social structures or communities.

Considering the impact of management standards of enterprises and organizations within ESG management on their business operations involves focusing on [1–2]:

– Ensuring transparency and accountability in managerial processes.

– Adhering to principles of corporate ethics and integrity in interactions with all stakeholders.

– Implementing an effective risk management and internal control system.

– Fostering an anti-corruption culture and preventing conflicts of interest.

– Ensuring gender balance and diversity within governing bodies.

– Strengthening the participation of shareholders and stakeholders in the strategic decision-making processes.

A more detailed description of the focus areas that ensure consideration of the impact of enterprises' and organizations' activities on the economy within ESG management is presented in Table 3.

Thus, the managerial component of ESG management focuses on increasing transparency, integrity, and efficiency in business operations, which in turn strengthens the trust of investors, partners, and society [4]. The identified focus areas – transparency of managerial

Table 3

Characteristics of the focus areas ensuring consideration of the impact of enterprises' and organizations' management standards on business operations within ESG management

Direction of impact	Focus areas	Examples of considering impact on business operations	Optimal impact outcome
Transparency and accountability of managerial processes	Ensuring open access to financial and non-financial information, regular reporting on performance, and compliance with international disclosure standards.	Publishing integrated sustainability reports; independent audits of non-financial reporting; transparent disclosure of ESG metrics	Achieving a "blue ocean" strategy, where competition gives way to the creation of new value, innovative opportunities, and long-term sustainable growth
Corporate ethics and integrity	Establishing corporate values based on trust, responsibility, and fairness; preventing unfair competition.	Implementing a corporate code of ethics; ethics committees; integrity programs for employees and partners.	
Risk management and internal control	Identifying, assessing, and minimizing economic, financial, and reputational risks associated with ESG factors.	Implementing risk management systems (ERM); regular risk audits; development of business continuity plans.	
Anti-corruption culture	Preventing corruption, conflicts of interest, and fraud; ensuring fairness in procurement processes.	Anti-corruption policies; "hotline" channels for reporting violations; staff training on integrity principles.	
Gender balance and diversity in governing bodies	Ensuring the representation of women and other social groups in governing bodies; fostering an inclusive corporate culture.	"Women in Leadership" programs; gender quotas on boards of directors; reporting on workforce diversity.	
Participation of shareholders and stakeholders	Engaging stakeholders in strategic decision-making processes, including dialogue and alignment of interests.	Stakeholder advisory boards; regular meetings with investors; joint development of strategic ESG goals.	

Source: compiled by the authors based on [1-2; 4–5]

processes, corporate ethics, risk management, anti-corruption culture, gender equality, and stakeholder participation – contribute to the gradual growth of business value, including overall market valuation, reputational capital, and investment attractiveness. A notable example is Unilever, which, through these focus areas, has achieved stable business growth. According to Unilever's 2023 report, the company achieved a 7.0% increase in profitability, and a 4.5% increase in 2024. Additionally, the company has significantly strengthened its competitive position in "red ocean" markets by creating new value through a strategy focused on 30 key brands, fostering innovation, and premiumizing its product portfolio, thereby consolidating its leadership in sustainable business.

At the same time, it should be emphasized that within ESG management, the benchmark for the impact of enterprises' and organizations' management standards on their business operations is achieving a "blue ocean" strategy, where competition gives way to the creation of new value, innovative opportunities, and long-term sustainable growth. Notably, Patagonia and Tesla are examples of companies operating within the blue ocean.

Patagonia has built its business model on the principles of environmental and social responsibility, creating a unique market for sustainable apparel and outdoor gear. The company not only offers high-quality products but also implements innovative approaches to material recycling, ensures full transparency across its supply chain, and directs 1% of its profits to support environmental initiatives. In 2022, founder Yvon Chouinard transferred all Patagonia shares to a trust, the profits of which are dedicated to combating climate change – an unprecedented move in corporate governance. In this way, Patagonia has created a new form of value – “environmental altruism” in business – effectively eliminating the need for direct competition with traditional clothing manufacturers.

Tesla, in turn, has become a driver of transformation in the global automotive industry by creating an entirely new market – the premium electric vehicle market – where the main competitive advantages are not price, but innovation, energy efficiency, and sustainability. By integrating ESG principles into its development strategy, Tesla ensures transparent supply chain management, reduction of CO_2 emissions (although the company has not yet achieved full environmental neutrality, it is actively progressing in this direction), the development of “green” energy through its subsidiary Tesla Energy, and community engagement in supporting environmental innovations. It has enabled the company to establish itself as a technological leader and create its own “blue ocean” of sustainable mobility technologies, gradually replacing the traditional automotive market.

Conclusions. The study concludes that, on a systemic level, ESG management acts as a driver of sustainable transformation for enterprises and organizations, as it facilitates the shift from traditional profit-focused business models to sustainable development models based on a balance of economic performance, environmental responsibility, and social equity.

It has been demonstrated that the phenomenon of sustainable transformation of enterprises and organizations within ESG management is a systemic process aimed at achieving long-term resilience, environmental balance, and social responsibility. This approach supports the development of businesses that are environmentally and socially neutral, operating within a “blue ocean” of new value, innovative opportunities, and sustainable growth, thereby ensuring harmony among economic, environmental, and social objectives.

The implementation of ESG management has been shown to promote sustainable transformation through the integration of sustainable development principles into organizational strategies, resulting in:

– Reduction of environmental and social risks affecting business financial stability.

– Increased investor trust through transparency, ethical conduct, and responsible management decisions.

– Strengthening of reputational capital and competitive advantages of enterprises.

– Activation of innovative processes aimed at greening production and developing human potential.

Consequently, future research prospects lie in a deeper analysis of the mechanisms for integrating ESG principles into strategic management across various industries, assessing their impact on financial and economic outcomes, and developing indicators for measuring the level of sustainable business transformation.

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