RESILIENCE FOR THE FUTURE: BETWEEN ECONOMIC VALUE AND ESG STRUGGLE TO DELIVER VALUE

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Abstract: *Investments, insurance, re-insurance and pension funds are essential parts of a working economy and also of functioning communities. This article presents a connection between these financial instruments and ESG, as a matter of functionality, eligibility and budgetary burdens. The argument will start with available data and the ESG requirements. Arguments will be narrowed down to green bonds as an example in regards to the need to stress test for economic growth and better financial reporting standards. In this sense, financial information and non-financial information can impact economic behaviour, business value and communities. This this paper presents the interconnections between the ESG and capacity of economy to revalue itself advantages and disadvantages for ESGR.*
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1. Introduction

After the financial crises, global and European architecture weaknesses were exposed especially in regards to malfunctioning of economics and governance. Asymmetric shocks raised questions on accounting standards and different industry sectors appetite for risk. Apart from the asymmetric shocks among different countries and industry sectors, there was an appetitive for aversion to risk. Yet, general economics articles look at other culprits and solutions, rather than going at foundational economy, revisit accounting profession and consider more social implications, in comparison to shifting the blame from public to private sector (Haslam, et al. 2017; Trasca, et al.,2019; Caraiani et. al.2020).

Rather than presenting the problems, this paper shall concentrate on solutions, lesson learned, newest Brussels regulation. Resilience is a key word that is multifaceted especially in the context of structural problems that need a holistic approach. Environment Social Governance (ESG) is usually one of the customary trends nowadays considered the path to sustainability, high quality growth and a resilient future. In this respect, this paper shall present connections in between economic value and ESG (Environment Social Governance). Further on this paper is structured as following: a short literature review will map out the state of affairs. This section of the paper will present a combination of economics and environment research. Secondly how value is captured by ESG will be presented with hand on business examples. Last part, will also consider disadvantages for a global understanding, how resilience, however, also for future vulnerability.

2. Literature Review

Anderson et. al. (2016) presents a bold theory and a rather novel idea on stress testing for accounting standards. They argue that stress tests should expand beyond banking sector where is usually used to the more abstract domain of accounting. In this manner preparers and more importantly managers could apply stewardship resources better in order to avoid moral hazards for communities in which businesses operate. Public good will be achieved via financial stability as impairments should get a different treatment for tangible and intangible assets especially for FTSEurofirst300 companies that have certain business models in this respect, especially as they use mark to market and mark to model valuations.

This article mentions the EU influential Maystadt report, which argues: The Maystadt report observes that: “policy choices in the field of accounting involve public interest stakes and accounting standards are more than a mere language convention. By influencing the behaviour of actors in financial markets, they can have an impact on the stability of those markets" (Maystadt Report, 2013, p. 5). More specifically, Maystadt discusses the difference in between private and public interests of companies and investors and the fact that accounting standards, especially IFRS should take into consideration more (primarily) users.

Accounting for shareholders reached its limits once with the financial crises and a new type of accounting based on stakeholders, or at least considering them more should be put in place. Relevant stakeholders are the government, employees, suppliers and arguably society at large for better informing interested parts and also present advanced forms of stewardships and governance.

In this way, public interest can frame value in a resilient manner. While investors put their money at risk and want a certain type of information on dividends and other earnings, suppliers for instance want to know if they are going to be paid next month, in a similar fashion to employees' general interests on salary and future pension schemes. Their approach goes hand in hand with government as another relevant stakeholder interested mainly in taxed and to some extent social justice. Lastly, customers and society at large may present some interest, as corporate strategies involve them, and they answer back with input to value.

In an article titled Accounting for the future: How will corporate business models deliver sustainability? Haslam et. al (2019) presents an analysis for risks for S&P 500 listed companies by linking carbon to finance establishing correlations in between carbon emissions and capital and also between carbon-financial intensity of corporate activities. These scholars analysis proves to be interesting as in addition in considers also regulation on carbon coupled with business models. One example in this sense is that „*a*ccording to a carbon footprint briefing note issued by ShareAction and TruCost: 'global emissions would have to fall by about 60% by 2050 to limit the increase in average temperature to less than 2°C (3.6°F) above pre-industrial levels. Over the last 40 years, CO2 emissions have continually risen and only stalling following major economic crises.'. Although carbon emissions intensity has fallen from 0.48 tons of carbon per $1000 of global GDP in 1990 to 0.32 tons in 2016, it is that case that GDP has grown at a faster rate thereby increasing overall global emissions from 22 billion to 36 billion tons of carbon equivalent emissions annually.' (ShareAction and Trucost, 2015 referenced in Haslam, 2019).

It looks that carbon represents a market value and it exists in companies' portfolios capturing value as well as making damage. From an ESG point CO2 knows only one treatment, yet at a closer look, financial analysis box many carbon intensive assets as „stranded assets" realising the downstream of such businesses in terms of their operation and market value especially for investment and pensions funds. This shows the existence of a value chain between shareholders and stakeholders and whether their interaction drives the companies towards a new paradigm or just compromise in value terms.

European Commission (2018) casts into light an interesting legal perspective on financing a sustainable economy. This view complements the literature explored as far as now. EU has an elaborated climate mitigation plan, where investment is directed where money are needed the most within the ESG framework to foster transparency, and disclose risk for existing instruments, yet creating new ones like green bonds together with an entire green infrastructure, as EU tries to be a global leader. EU's long view considers ESG as cornerstone value for future resilience and sustainable investment.

Buda et al. (2019) considers that natural capital is very complex should be regulated and economically treated different: from biotic assets (including human capital) to abiotic assets (wind, solar). Apart from the classical by now distinction between HCA (Historical

Cost Accounting) and FVA (Faire Value Accounting), he considers materiality as a cornerstone that should count for more. Hoinaru et. al. (2018, 2019, 2021) provides interesting perspectives into EU's political economy and ESGs. He argues that together with business models, non-financial reporting should be the solution to a future resilient proof on green economics incentives. First of all, he argues about the financial reporting and community value as a XIX century drive project. Financial reporting numbers have to be backed up by narratives, especially as shareholders do not always have the capacity to read and understand numbers and certain explanations beyond preparers' skills. There are two options on this sense: 1. Either IFRS include more space for managerial comments accordingly to IAS 1 and expand it to other standards, or 2. as it happened in the US a certain deal in between FASB (Financial Advisory Standards Board) and SASB (Sustainable Accounting Standards Board) was done to build bridges for both expanding information, yet making it more understandable, considering environmental and social aspects of ESG, EEEs (Ecology, Evolution, Environment) and SEEs (Social Economic Environment).

Next, this paper will depart from the literature review and will present in more practical terms resilience in ESG verifying theories looking at the interactions between shareholders' rights and obligation and stakeholders' approach to value. After this pros and cons will be considered, before arriving to a conclusion.

3. Resilience and ESG

The „E" :In terms of environment, situations are unidirectional, that companies cannot make profit at the expense of environment, and more should be done in terms of sustenabilty than the classical and old-fashioned by now „polutter pay principle". Environment should also be understood in more hands on business terms of water accesbility, waste management, rather than its cliche general appraoch of climate change and carbon foot print.

The „S":It can be seen from both the academic and professional literature review that ESG is part of value creation. Human capital is one of the most modern important capital a company can have, yet, at times it si hard to express it in proper monetary terms. Sürdü et al. (2020) has an extensive analysis of of human resurce accounting, analysing 54 annual reports of corporations establushing interesting correlations between return on assests and return on equity via human resources reports analysis, considering the productivity of people, salaries, company profit and employee satisfaction. Beyond this the subject should be treated in public heath issues and costs for employees that experience burn out, which is an increasing trend leading to a new branch of Human Resource Accounting (HRA) and costs of about 255 billion British pouds, similar to an epidemy. Some companies, use this HRA in thier advantages, like Allianz who has internal metrics like Work Well Index and Inclusive Metridocracy Index and thier internalise this self-reporting growing in rankings of best companies (Hoinaru, 2021).

The „G": Governance encompases ethics, board diversity and stakeholders rights, ultimately closing the circie in the sense that as well as procedures can connect with shareholder and stakeholder value. Accordingly, to S&P Global : „The "G" in ESG refers to the governance factors of decision-making, from sovereigns' policymaking to the distribution of rights and responsibilities among different participants in corporations, including the board of directors, managers, shareholders, and stakeholders." (S&P, 2022).

Governance is in a way the link between financial reporting and non-financial reporting, providing understnading on materiality also being considered by auditors. Governance raise concerns on profit distribution between management bonus and shareholders' divident distribution, as well Corporate Social Responsability (CSR), making it the most important key factor in ESG, answering the dilema of profit or purpose and how should this be adressed.

Even so, what seems to be missing here is the specific reference between resilience and ESG beyond the inbuild characteristics of the system. ESG is both subject to pros and cons due to an ambigous nature and a particular type of value creation. These intangible assests, or positive externalities, are employed in far too indirect manners in value creation, forcing the skills of accounting preparers and financial analysts, informing investors in a disruptive manner, accordingly to some. Other scholars view ESG in the context of double materiality, considering non financial aspects separate from financial aspects of companies, despite that non-financial have a deep monetary impact on value of balance sheet aspects and also on profit and loss account.

The „R" in ESG is a more and more going concern: „in a world of increasing upheaval, ESG investors must also be able to assess resilience." In this sense, the City resilience Index has 52 metrics that present the resilience of cities and extrapolating the analysis can move on as this also shows public health issues, well being, but also new type of developments in societies, as city are places of inovation. Some numbers dislosed are of great intrests are they also connect high growth economic environments with dept, showing certain risks and capacity to recover (World Economic forum, 2021).

One important aspect of resilience is adaptability. One Deloitte report concentrates on the private sector, looking at companies, presenting the pictures from a bottom up perspective. Apart from adaptability, they consider other 4 dimension of resilience:prepared, collaborative, trustworhy, responsable. These key concepts were identified as a result of a survey to CXO (Chief Experience Officers). This study considered the „new normal" and the expected „better normal" as companies are currently cultivating a culture of resilience. Deloitte concluded that: „*Most resilient organizations focus on all of these traits to some degree, not just one or two of them. In part, this is because these characteristics often overlap and support one another. For instance, companies that practice stakeholder capitalism are likely focused on trustworthiness and ethical behavior*." (Deloitte, 2021).

In parallel, Mckinsey produced thier own study arguing that corporate resilience has to be defined after the pandemy and identified specific risks, including geo-politican one, which can be introduced as ESG at large. In this sense, political risks increased up to 15 % on thier scale. Disruptive business models also got further attention, as well as organisation purpose. Interesting enough an very surprinsingly corporate resilience actually dropped. On average it can be said that companies operate the same business as usual, making profits, yet there is a huge internal dynamism that actually challanged the old ways in a huge manner and the major reason for this is happening is due to resilience. Rather than absorbing the risk of crises, companies stay on their own track and reinvent and adapt to internal and external conditions in such a way that they are actually profit the entire situation (Mckinsey, 2021).This shows that ultimiately, resilience triggers a value chain backwards and upwards to such an extent it creates a renewal of the comapany, backed up by a complicated strategy for future economic value.

A hands on business example on how ESG is producing not only money, yet also market value for the company is represented by green bonds. In an article concentrating the effort of scholars from the UK, Germany and Romania, having also a Club of Rome sustenability perspective the green bonds financial situation is presented. Currently, there is an increased appetitite word wide for green bonds as they got listed world wide from Luxembourg to Asia to the US and are backed up by clear principles. There are of course differences in between sovereignty and corporate green bonds, with different values in terms on who is drivig the project. For instance green bonds issued by companies like

Apple or Pepsi Co. are regarded as of higg value. Also, bonds issued by local authorities are also trusted by buyers as they can have a check and control over thier investment.

These ESG investments are sometimes prefered to regular bonds as a great maket gorwth is envisioned, there are some tax cuts incentives, as well as beyond financial gains motives, there is a public good aspect also. Hoinaru et al. (2020) puts forward a rather interesting idea on creditor protection. Title is a bit miseleading, as in this particular context, creditor protection relate to their informing capacity. Therfore, clear principles should exist for green bonds to create market trust rather than individual drivers. The International Capital Market Association (ICMA) states that: „*The Green Bond Principles are voluntary process guidelines that neither constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) in respect of Green Bonds or any other securities. The Green Bond Principles do not create any rights in, or liability to, any person, public or private*" (ICMA, 2018).

Following the same logic, Securities Industry and Financial Markets Association (SIFMA) discovered that green securities are a growing part of the market, however, they are still very small comared to other parts of the market, having a share of around $100 trillion over the last years. (SIFMA, 2017). This should not be missread as green economics could and should be necesarily for poor economie though this can actually be a win win situation, that would actually put resilience in another framework, when applied to countries in Africa, Latin America and other parts of Asia. Other economists like Barbier (2015) cosider this a trade offs rather than a win win scenarios for for a better understanding presents the follwing:

Resilience can be adressed in risky way by exploiting short term fluctuations and global imbalances. Another perspective carrying a Schumpeterian point of view is that green industry can be a solution for resilience, yet new instruments and R&D should constitute the basis for a start. Next level of this is the Georgian perspective which views the long term is that substitutes for scarcity have to be found to avoid constrainents.

4. Pros and cons

The resilience aspects of ESG are complicated as value is created in both material and immaterial ways. Also, ESG value is sometimes unpredictable as greening a business come with some costs while more can be gained in tax incentives or in customers more willingly to pay for premium quality, yet it can affect further vulnerable customers. There are pros and cons that came attached with ESGR as resilience is a rather new economic trend, which would not make any economic sense to firms in the 70s for instance.

The pros of the resilience as framed by ESG is the new space for growth, new business models, new market segmentation. This looks like a development trend for the XXI century especially as green economic transition may slow down the economic development for companies before they set them on a long-term growth by providing sustainable energy, community support, high governance standards aimed at better customers and less punitive financial measure from authorities. Also, ESGR normally make investors to avoid certain industries like tobacco, weapons, etc. that are normally subject to huge regulatory burdens.

The most major con is identified in a Morgan Stanley report (2013) as investors, in fact 84% of them are not looking for ESG: „Globally, more than $22.8 trillion are invested sustainably, representing more than $1 in every $4 under professional management." On top of this, there is the issue that there is not one size fit all as there are various standards and self-assessment procedures that may in the end hinder understanding of any resilience and any ESG improvements.

5. Conclusion

To sum up, this paper had a balanced approach considering all the stakeholders voicing or expressing concerns, regulators like European Commission, private companies like McKinsey & Company , Deloitte, etc. and many academics like Biondi, Haslam, Sürdü covering a large geographical area. My research discovered that ESG is important, yet it has to be revisted in terms of its limitations, especially as this type of metrics are only just at the beginning and there is no uniform uniderstanding of standards, numbers have to be backed up by heavy narratives. Communities, environment and goverance in a broad sense, with its ethical standards, puts forward accounting public good and in a more direct and indirect manner resilience. As argued by WeForum, next level of ESGR (Environment Social Governance Resilience) should be envisioned for better connections between financial and non-financial reporting. Resilience has to be fraamed by ESG, despite the pros and cons presented. Materiality is an important aspect of ESG and what resilience means, yet in terms of human capital and environment is sometimes hard to capitalise on and appropriately be measured. In effect, there is a struggle for ESG to deliver a proper understandable value, as there is a risk all the economic incentives to have a counter-intuitive effect, beahve in an opposite manner than the one they were designed and envisoned for. As Haslam argued, there should be stress test frameworks for checks and balances for resilience, yet, also investors must have a certain appetive for innovative business models, new skills for understanding ESG, like value of human capital and carbon pricing, as well as ethical standars. Hoinaru (2021) asked for some better informing and creditor protection via high quality standards. Currently, as WeForum presented, there is an R missing out in the ESG, and this happens for a reaons, which will be corrected in the future, as this is an increasing trend, however, we are not at the breaking point yet.

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