RIGA TECHNICAL UNIVERSITY

Ilze Zumente

MODEL OF CORPORATE SUSTAINABILITY DRIVERS THROUGH BUSINESS LIFECYCLE

Summary of the Doctoral Thesis

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DOCTORAL THESIS PROPOSED TO RIGA TECHNICAL UNIVERSITY FOR THE PROMOTION TO THE SCIENTIFIC DEGREE OF DOCTOR OF SCIENCE

To be granted the scientific degree of Doctor of Science (Ph. D.), the present Doctoral Thesis has been submitted for the defence at the open meeting of RTU Promotion Council on 19 December 2023 10:00 at the Faculty of Engineering Economics and Management of Riga Technical University, 6 Kalnciema street, Riga, Latvia.

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DECLARATION OF ACADEMIC INTEGRITY

I hereby declare that the Doctoral Thesis submitted for review to Riga Technical University for promotion to the scientific degree of Doctor of Science (Ph. D.) is my own. I confirm that this Doctoral Thesis has not been submitted to any other university for promotion to a scientific degree.

Name Surname: Ilze Zumente
Date: ……

The Doctoral Thesis has been written in English. It consists of an Introduction, 5 chapters, Conclusions, 41 figures, 23 tables, 8 appendices; the total number of pages is 199, including appendices. The Bibliography contains 282 titles.

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Introduction

Topicality of the Research

Sustainability, aiming to enhance human life and environmental care, has shifted focus from inter-governmental dialogues to corporations in recent decades. The UN"s latest Sustainable Development Goals (SDGs) emphasize this shift, calling for corporate action to address global challenges (UNEP & WBCSD, 2010). As of 2019, intangible assets like reputation and customer loyalty composed 84 % of S&P500 company value, reflecting a shift in investor priorities (Ocean Tomo, 2021). Additionally, public perception has evolved, now expecting corporations to contribute to societal and environmental welfare beyond just financial contribution. The general consideration for sustainability implementation in organisations follows actions across three distinct pillars – environmental, social, and governance (ESG). While sustainability is a broad, multi-faceted, and hardly measurable concept, ESG aids at serving as a specific quantitative measure of a company's sustainability and corporate social performance, thus allowing a better understanding of the impact of social responsibility efforts on quantifiable outcomes of the company's financial and operational performance (Clark & Viehs, 2014).

There is a growing awareness of the importance of long-term focus and incorporating sustainability criteria into financing decisions. ESG factors have become increasingly popular in the market for sustainable investments over the past decade – sustainable investment funds reached a record high of 1 trillion USD in assets under management in 2020 (Reuters, 2021). According to a July 2020 survey by EY, 98 % of global institutional investors evaluate company performance using ESG factors (EY, 2020).

Legislative requirements are driving the ESG trend. The Corporate Sustainability Reporting Directive (CSRD), proposed by the European Commission in April 2021, aims to advance and enhance the comparability of ESG disclosures, shifting it towards the obligation to report for the larger entities from the year 2023, while for small and medium-sized enterprises from 2026. The percentage of large global companies, including ESG disclosures in their annual reporting, has increased from 44 % in 2011 to 96 % in 2021 (KPMG International, 2022).

As such, the level of ESG adoption across corporations is still far from being unified – there are differences across stock-listed and privately held companies, companies with differing financial strengths and headquartered across differing geographies (Yu & Luu, 2021). While the EU is in a global pole position regarding existing corporate sustainability regulations, the Central and Eastern European (CEE) countries, including the Baltic region in terms of ESG, are still developing markets. Nevertheless, shareholder value sustainability in emerging markets is even more critical. Given the low level of stock market capitalisation and less developed financial markets, the degree of corporate disclosure and information availability is lower. In addition, higher political uncertainty and greater risk exposure of the privately held companies hinder foreign investor interest in the region and impose a competitive disadvantage.

The significant power attributed to the ESG to affect corporate financial performance could potentially become an accelerator leading to improved development of the corporations and the investment climate in emerging markets. As the CEE region is the fastest growing of the EU and has become a significant contributor to the overall EU service and manufacturing output, the progress in sustainability in this region is also important for the overall EU market development. Consequently, the Doctoral Thesis sets forth to understand the optimal conditions and potential impact factors for efficient ESG practice implementation in this geographic area. In addition, given the varying set of drivers and ESG implementation areas across different stages of the development of corporations (Atif et al., 2022), the topic is considered from the lens of company life cycle theory, which is currently still missing in the academic literature.

Research questions

1. How has the concept, measurement, and legislation of ESG developed, and how does it impact corporations?
2. How does a company's ESG implementation impact shareholder value?
3. What are the drivers and barriers impacting effective ESG implementation?
4. What are the relevant drivers for ESG implementation in companies across different corporate life cycle stages?

The goal of the Doctoral Thesis is to identify the factors that encourage the implementation of ESG practices at various stages of a company's life cycle, with the aim of enhancing value creation for shareholders in the Baltic companies. To achieve the goal of the Doctoral Thesis, the following **objectives** have been established:

1. To explore the matter of corporate sustainability as measured by ESG factors, its proxies, and definitions, as well as the existing legislative framework and applicable measurements.
2. To investigate the factors through which ESG is contributing value to the shareholders of corporations.
3. To identify external and internal factors that positively or negatively impact ESG implementation and disclosure in corporations.
4. To explore the relevance of specific ESG drivers across different stages of the corporate life cycle.
5. To develop a set of recommendations for the improvement of ESG implementation in the Baltic companies.

The Object of the Doctoral Thesis is the ESG implementation level of corporations operating in Estonia, Lithuania, and Latvia (Baltic region). For certain parts of the Thesis, data for companies operating in the larger CEE area is used. **The Subject of the Doctoral Thesis** is the drivers affecting ESG implementation in different stages of the corporation life cycle.

Research Limitation and Constraints

1. Given the limited data availability in the field of corporate sustainability and ESG, various data collection and analysis methods have been used, including surveys, third-party ratings, and qualitative assessments. The data limitation has not allowed the construction of a static sample of companies that could have been used throughout all the stages of analysis. Therefore, a description of the data collection method and the sample is added to each individual part of the study.
2. The study primarily explores the Baltic region companies, with extended analysis covering CEE countries such as Croatia, Romania, Hungary, Czech Republic, Slovakia, Poland, Bulgaria, and Slovenia.
3. The analysis spanned from 2019 to 2023. Given the evolving research topic, some changes may not be captured in the Thesis.
4. Due to data limitations, the research integrated diverse companies – listed, privately held, and state-owned. The type of corporations analysed is described in each study part.
5. The incorporation of the corporate life cycle theory was done only in the latter stages of the study (Chapter 5). Earlier chapters focus primarily on establishing the foundation and understanding of corporate sustainability and ESG in general, thus not elaborating on the distinctions based on the separation into the life cycle stages.
6. Interviews and surveys were conducted in English or Latvian, with the AHP survey offered to the expert panel in English.

Theoretical and Methodological Framework of the Doctoral Thesis

The study is based on theories and practical findings elaborated by world-leading scholars and business practitioners in the relevant fields – shareholder theory (Friedman, 1970), stakeholder theory (Freeman, 1984), upper echelon theory (Hambrick & Mason, 1984), shared value concept (Porter & Kramer, 2011), legitimacy theory (Suchman, 1995), institutional theory (DiMaggio & Powell, 1983), resource-based view or resource theory (Pfeffer & Salancik, 1978), voluntary disclosure theory (Verrecchia, 1983; Dye, 1985), corporate social responsibility research and theories proposed by Carol (1970), organisational life cycle theory (Anthony and Ramesh, 1992; Miller & Friesen, 1984; Kath and Kahn, 1978; Smith, Mitchell, and Summer, 1985; Black, 1998; Richard L. Daft, 1999; Mintzberg, 1984; Adizes, 1989), and analytical hierarchy process developed by Saaty (1970).

Multiple sources of information were used to obtain data and opinions, including the corporate sustainability and annual reports of the NASDAQ OMX Baltics listed companies available on the website of the stock exchange, websites and annual reports of CEE stock-listed corporations, academic research databases (Scopus, Web of Science, ScienceDirect, Directory of Open Access Journals, JSTOR), financial databases such as Bloomberg and yahoo.finance, publications by supranational organisations (OECD, European Commission, European Central Bank), legal acts and regulations, surveys of investors and companies performed by the author, reports and

publications compiled and published by professional service providers and companies in the relevant business fields such as Morningstar, Reuters, KPMG, Deloitte, EY, McKinsey and similar.

Research Design

The research questions, research goal, and research objectives order the logic of research design across different phases.

Phase 1. Elaboration of research methodology and conceptual framework of ESG effect on the shareholder value.

This research phase included analysis of scientific literature with an aim to identify the research problem and to formulate the research questions; elaboration of research methodology – setting the research goal and objectives, formulating the research object and subject, working out the research design, and choosing appropriate research methods. Finally, Phase 1 concluded with the exploration of the ESG concept as the variable measuring sustainability performance.

The first research question – *How has the concept, measurement, and legislation of ESG developed, and how does it impact corporations?* – was explored via scientific literature analysis, including legal documents, academic studies, and business reports. The results achieved provided a standard baseline for understanding the development of the corporate sustainability concept and its limitations, the approaches of measurement as well as highlighted the relevance of the matter for corporations. The second research question – *How does a company's ESG implementation impact shareholder value?* – was answered based on the qualitative and quantitative content analysis of the scientific literature and enabled the author to work out a conceptual framework for exploring the link between corporate sustainability performance and long-term shareholder value creation.

Phase 2. Determination of factors impacting ESG implementation in the Baltic region corporations

The aim of this phase was to identify the drivers and barriers impacting ESG adoption. The study of Research question 3 *What are the drivers and barriers impacting effective ESG implementation?* – allowed the revealing of the aspects and characteristics which might have a significant impact on corporate sustainability advancements in a company; understanding of key obstacles hindering a more comprehensive degree of ESG adoption, by especially exploring a sample of corporations in the Baltic region. Finally, identifying key internal and external drivers and factors was completed.

Phase 3 and 4: Elaboration of a model for understanding the key ESG drivers across various phases of a company's life cycle.

Phase 3 initially obtained an overview of the corporate life cycle theory in light of corporate sustainability adoption. Based on the academic literature and the previously obtained study results,

a conceptual model summarising internal and external drivers for ESG implementation was elaborated with an aim to understand the relevance of the respective drivers at the start-up, growth, and maturity stage of the corporate life cycle. The conceptual model formed the basis for addressing Research question 3, *"What are the relevant drivers for ESG implementation in companies across different corporate life cycle stages?"* in Phase 4 of this research by applying the analytical hierarchy process of surveying an expert panel representing the largest Baltic banks, risk capital funds, associations, consultants, and corporate sustainability subject matter experts. The corporate life cycle theory is applied only in the latter stages (Chapter 5) of this study because it offers a useful framework for understanding the context-specific influences on ESG implementation. Stages 1 and 2 of the research focus on establishing a foundational understanding of ESG, its development, measurement methods, impact on shareholder value, and identifying the drivers and barriers of ESG adoption. Once these key concepts and variables are elaborated and analysed, the corporate life cycle theory is introduced to link these components within different corporate stages – startup, growth, maturity – helping to map the ESG drivers over time, therefore filling the gap in the existing academic literature and providing a practicable and novel model. Using the corporate life cycle theory in the final phase allows a nuanced analysis of ESG drivers, effectively identifying which factors are most influential at different points in a company's evolution.

Research and Data Collection Methods

The study employs qualitative and quantitative research methods. Qualitative data analysis methods used included scientific literature analysis, qualitative content analysis (of the academic literature, legislative documents, business reports, respondents' answers, mission statements), bibliometric analysis, triangulation of the outcomes of literature analysis with the findings of the empirical part of the research as well as comparative analysis.

Quantitative data analysis methods applied included descriptive analysis, benchmarking, average and relative ratio analysis, correlation analysis, t-test analysis, frequency analysis, and analytical hierarchy process.

Data collection for the study involved semi-structured, structured, and unstructured interviews with various stakeholders, including private equity investors, banking representatives, corporations, and state-owned corporations from the Baltic states. It also incorporated surveys targeting financiers, investors, corporations, and ESG experts to capture insights on sustainable investing trends, ESG implementation, and the analytic hierarchy process (AHP) assessment.

Main contributions and scientific novelty

1. The central contribution of the Doctoral Thesis is the development of a model that explores the key drivers of ESG implementation at various stages of a corporation's life cycle. This model has been empirically tested in the Baltic region and provides valuable insights for

both business practitioners and policymakers on the factors that can drive wider ESG adoption by corporations.

2. In addition, the Thesis elaborates a conceptual model exploring the link between ESG performance and long-term shareholder value creation by determining the critical factors through which ESG can impact long-term value creation for the company's shareholders.
3. The results obtained in various studies comprised in the Doctoral Thesis contribute to the Baltic (and in certain cases also wider CEE) region-specific academic evidence:
    a) on the corporate ESG adoption level (the first existing evidence of ESG disclosure level in the Baltic stock-listed companies as well as the results of self-assessment of the ESG adoption by a specific sample of corporations in Latvia);
    b) trend analysis of the corporate sustainability emergence in the stock-listed CEE corporations via a mission statement analysis;
    c) novel evidence on the external ESG rating availability among the CEE corporations and its impact on the trading volume;
    d) new insights into investors' and financiers' perspectives on the importance of ESG adoption in the Baltic region;
    e) new contribution to the academic literature measuring the board diversity metrics impact on the non-financial performance from the sample stock-listedBaltic corporations.

Practical value

The results obtained in the process of writing the Doctoral Thesis can be used to promote higher corporate sustainability as measured by ESG factors in the Baltic and potentially also in the wider CEE region. Given the obtained overview of higher ESG levels associated with higher shareholder value, the results can be used to promote the implementation of higher ESG relevance and motivate corporations and financiers to consider a greater degree of adoption. The proposed model of drivers of ESG implementation across various life stages can aid financiers and shareholders in finding the most important levers for catalysing higher ESG adoption across the corporations at differing development phases.

The results of surveys and analysis can be used by business practitioners and investors to understand better the current ESG implementation degree across the Baltic corporations. The results of the survey of the financial investors and banks can be used by corporations to understand the current and expected requirements of the ESG adoption necessary for capital attraction.

Certain parts of the study (mission statement analysis and ESG disclosure level results over time) can also shed light on the trends and tendencies of corporate sustainability adoption over time in the specific region of the Baltic countries or in the context of the wider CEE area.

Hypothesis

Different sets of internal and external drivers have a relevant impact on ESG implementation at various corporate lifecycle stages.

Theses for defence

1. Higher ESG performance positively impacts shareholder value directly through improved financial performance and reduced risk and indirectly via factors such as transparency, stakeholder engagement, management, long-term orientation, employees, reputation, capital management, operating capabilities, and customers.
2. The positive outcomes of ESG adoption can be seen as even more crucial in emerging economies, such as the CEE area and the Baltic countries, as the region is characterised by below-average performance of the legal system, low degree of the stock market activity and diversity measures.
3. The empirically tested model of relevant ESG drivers across corporate life cycle stages in the Baltic region can ensure the efficient use of levers to catalyse wider ESG adoption in the region.

The approbation and practical application of research results

The research results were discussed at international scientific conferences in Latvia, Lithuania, the US, Poland, and South Korea and were further reflected in relevant scientific publications. The conferences have allowed the gathering of valuable insights and reflection on the received comments and peer-reviews in the improvement of the scientific quality of the research performed.

The research results can be applied in the field of financial market investments among policy-makers and corporations: (1) by addressing the shortcomings and challenges highlighted by this research, the policymakers and business practitioners can explore the ways to foster wider adoption of ESG policies across the companies in the Baltic countries; (2) study results might be beneficial for the top management of companies to understand the benefits and shortcomings of ESG implementation and therefore, further drive ESG implementation across corporations, (3) the conclusions of this study can aid financiers and investors in better understanding the status quo of the companies they potentially like to invest in.

Scientific publications

The results of the research have been reflected in 12 published articles, 11 of which are indexed in SCOPUS and Web of Science databases.

1. Zumente, I., Lāce, N. (2023). ESG Disclosure in the Baltic Region – Evidence in a Temporal Perspective. Intellectual Economics, 2023, Vol. 17, No.1, pp. 73–85. https://doi.org/10.13165/IE-23-17-1-04 (Scopus)
2. Daszyńska-Żygadło, K., Marszałek, J., Piontek, K. & Zumente, I. (2023 forthcoming). Are green bonds a good investment opportunity for turbulent times? Annales

Universitatis Mariae Curie-Skłodowska, sectio H – Oeconomia, 2023, Vol. 57, No. 2, pp. 7–25. http://dx.doi.org/10.17951/h.2023.57.2.7-25

3. Zumente, I., Lāce, N. (2023). Understanding Corporate Sustainability Drivers Across Corporate Life Cycle. Proceedings of the 14th International Multi-Conference on Complexity, Informatics and Cybernetics: IMCIC 2023, pp. 168–175. https://doi.org/10.54808/IMCIC2023.01.168 (Scopus)
4. Zumente, I., Lāce, N. (2022). The Impact of Regulation on the ESG Implementation – a Case Study of Latvia. Proceedings of the 26th World Multi-Conference on Systemics, Cybernetics and Informatics: WMSCI 2022, Vol. I, pp. 127–132. https://doi.org/10.54808/WMSCI2022.01.127 (Scopus)
5. Zumente, I., Bistrova, J., Lāce, N. (2022) Environmental, Social and Governance Policy Integration and Implementation from the Perspective of Corporations. Intellectual Economics, Vol. 16, No. 1, pp. 41–57. ISSN 1822-8038. Available from: doi:10.13165/IE-22-16-1-03 (Scopus)
6. Zumente, I., Lāce, N. (2022). Are We There Yet? The Evaluation of ESG Impact on Corporate Financial Performance in CEE. 12th International Scientific Conference "Business and Management 2022", Lithuania, Vilnius, 12-13 May, 2022. Vilnius: Vilnius Tech, 2022, pp. 1–7. ISSN 2029-4441. e-ISSN 2029-929X. Available from: doi:10.3846/bm.2022.718 (Web of Science)
7. Zumente, I., Lāce, N. (2021). ESG Rating – Necessity for the Investor or the Company? Sustainability, 2021, Vol. 13, No. 16, pp. 8940–8954. e-ISSN 2071-1050. (Scopus, Web of Science).
8. Zumente, I., Bistrova, J. (2021). Do Baltic Investors Care about Environmental, Social and Governance (ESG)? Entrepreneurship and Sustainability Issues, 2021, Vol. 8, No. 4, pp. 349–362. e-ISSN 2345-0282. (Web of Science).
9. Zumente, I., Bistrova, J. (2021). ESG Importance for Long-Term Shareholder Value Creation: Literature vs. Practice. Journal of Open Innovation: Technology, Market, and Complexity, 2021, Vol. 7, No. 2, pp. 1–13. e-ISSN 2199-853. (Scopus).
10. Hadro, D., Fijałkowska, J., Daszynska-Zygadlo, K., Zumente, I., Mjakuškina, S. (2021) What do stakeholders in the construction industry look for in non-financial disclosure and what do they get? Meditari Accountancy Research, 2021, Vol. 29, No. 6, pp. 1–15. ISSN 2049-372X. Available from: doi:10.1108/MEDAR-11-2020-1093. (Scopus, Web of Science).
11. Zumente, I., Lāce, N. (2020). Does Diversity Drive Non-Financial Reporting: Evidence from the Baltic States. Intellectual Economics, 2020, Vol. 14, No. 2, pp. 50–66. e-ISSN 1822-8011. (Scopus).
12. Zumente, I., Bistrova, J., Lāce, N. (2020). ESG Disclosure Patterns in the Baltics. In: International Scientific Conference "Business and Management 2020", Lithuania,

Vilnius, 7–8 May 2020. Vilnius: VGTU Press, 2020, pp. 28–37. e-ISSN 2029-929X. (Web of Science)

The results of the research have been presented at the following international scientific conferences:

1. 14th International Multi-Conference on Complexity, Informatics and Cybernetics (IMCIC 2023), March 28–31, 2023. Report: Understanding corporate sustainability drivers across corporate life cycle.
2. Riga Technical University 63rd International Scientific Online Conference "Scientific Conference on Economics and Entrepreneurship", SCEE'2022, Riga, Latvia, October 13–14, 2022. Report: ESG Disclosure in the Baltic Region – Evidence in the Time Perspective.
3. Zafin Finance and Sustainability Conference, July 1, 2022, Wrocław University of Economics and Business. Report: Are green bonds good investment opportunity for the turbulent times?
4. 12th International Scientific Conference "Business and Management 2022", May 12–13, 2022, Vilnius, Lithuania. Report: Are We There Yet? The Evaluation of ESG Impact on Corporate Financial Performance in CEE.
5. Riga Technical University 62nd International Scientific Online Conference "Scientific Conference on Economics and Entrepreneurship", SCEE'2021, Riga, Latvia, October 14–15, 2021. Report: The Assessment of ESG Maturity in the Baltic Companies.
6. Society of Open Innovation: Technology, Market, and Complexity (SOI) & Riga Technical University 2021, July 12–15, 2021. Report: Discovering environmental, social and governance performance implications on the long-term shareholder value creation.
7. Riga Technical University 61st International Scientific Conference "Scientific Conference on Economics and Entrepreneurship", SCEE'2020, Riga, Latvia, October 16, 2020. Report: Does Diversity Drive Sustainability in the Baltics?
8. Riga Technical University 61st International Scientific Online Conference "Scientific Conference on Economics and Entrepreneurship", SCEE'2020, Riga, Latvia, October 16, 2020. Report: Research on the Impact of Problems Caused by Covid-19 on the Latvian Enterprises and Opportunities for Overcoming the Negative Consequences.
9. 11th International Scientific Conference "Business and Management 2020", May 7–8, 2020, Vilnius, Lithuania. Report: ESG Disclosure Patterns in the Baltics.
10. Riga Technical University 60th International Scientific Conference "Scientific Conference on Economics and Entrepreneurship", SCEE'2019, Riga, Latvia, October 11, 2019. Report: Legal Tools for Corporate Governance Implementation in State Owned Enterprises in Latvia.

Content and volume of the Thesis

The Doctoral Thesis consists of an introduction, five chapters, conclusions and recommendations, and a list of references with 282 sources. The Thesis is illustrated by 41 figures and 23 tables. The total number of pages is 198, including eight appendices.

Chapter 1 of the Doctoral Thesis focuses on (1) providing a high-level insight into the historical development of the field, the key concepts, and the legislative framework; (2) understanding the definition of the ESG and its differences from other forms of corporate social responsibility; and (3) measurement and application of the ESG factors in the financial markets and corporate finance.

Chapter 2 provides an overview of the traditional shareholder value drivers as summarised in academic literature and discusses the potential impact of ESG introduction on the traditional shareholder's value principles. The first part of this chapter compiles academic insights on the academically discussed shareholder value drivers, while the second part of the second chapter provides the results of bibliometric and qualitative content analysis discovering ESG impact on the shareholder value determinants.

Chapter 3 outlines the importance of ESG in emerging economies like the Baltics and the CEE region, assesses the current ESG implementation, analyses company mission statements, examines ESG ratings, and reviews ESG disclosure levels in the Baltic states. Chapter 4 examines the drivers and barriers to ESG adoption, providing empirical studies validating these in the Baltic context.

Chapter 5 links the corporate life cycle theory to ESG drivers, exploring different definitions and variations, and forms a conceptual model of ESG drivers across diverse corporate lifecycle stages using the analytic hierarchy process (AHP) method. The Thesis ends with conclusions and recommendations.

1. Corporate sustainability: Emergence, definitions and implementations

Corporate sustainability refers to ESG factor integration into corporate operations to balance economic success, social responsibility, and environmental stewardship. This evolving concept gains importance as society and investors emphasise corporate responsibility and sustainable finance. The trend towards long-term investments in sustainable enterprises is growing (European Commission, n.d.). The first chapter primarily includes a literature review on ESG emergence, definition, measurement, its distinction from corporate social responsibility compiled by the author (Section 1.1), author's analysis of the legislative developments with a European focus (Section 1.2), as well as elaboration of the relationship between sustainability disclosure, performance, and financial performance (Section 1.3).

1.1. ESG concept and methods of measurement

The range of terms that have evolved around sustainable finance is large and growing over the years. It is partly driven by the acceptance of more general, not-uniformly defined terms for the subject matter adopted in the academic and business world over time (Capelle-Blancard & Monjon, 2012). With time, the term "ethical" has been gradually replaced with "socially responsible investing", further evolving into "sustainable investing" or "responsible investing" (Daugaard & Ding, 2022). This approach advocates economic growth while minimising environmental impact, incorporating social and governance aspects. The ESG concept, first used in a 2005 UN Global Compact publication, aims to integrate environmental, social, and governance factors into corporate operations and measure corporate sustainability (UN Global Compact, 2005). The three ESG pillars encompass different sustainability and ethical operations measures. Table 1.1 summarises the most frequently reported factors across the three ESG pillars.

Table 1.1

Summary of ESG Factors (the author's analysis)

Environmental	Social	Governance
Energy efficiency	Human and labour rights	Board composition
Greenhouse gas emissions	Equality and diversity	Board diversity and inclusion
Water management	Staff turnover	Remuneration/incentives
Climate change risks	Training and education	Independence
Waste management	Health and safety	Corporate actions
Pollution of air, water, and land	Working conditions	Corruption and bribery
Resource depletion	Community engagement	Accounting and audit quality
Biodiversity	Data security and privacy	Risk management
Environmental management systems	Supply chains	Transparency

Companies in different industries are exposed to varying ESG risks and opportunities. For example, a manufacturing company in China will have a higher exposure to environmental and human rights risks than a software development company operating in Germany. A trade-off exists between sustainability endeavors and the financial performance of the companies suggesting that a strategic focus on the material ESG issues is necessary in order to remain on the so-called efficient "performance frontier" and avoid value discretion (Eccles & Serafeim, 2013). The Sustainability Accounting Standards Board (SASB) aids companies in identifying and reporting on relevant sustainability matters (SASB, 2021).

The corporate sustainability concept in academic literature often overlaps with corporate social responsibility (CSR) and the concept of corporate social performance (CSP). ESG measures can serve as a proxy for these concepts, as ESG factors enable quantifying CSR efforts, aiding investor decision-making (Daugaard & Ding, 2022). It has been argued that the "sum" of the single ESG factors can be seen as a proxy for a company's CSP and thus can provide a quantitative measure for the otherwise hardly measurable CSR concept (Clark & Viehs, 2014). With the development of ESG measurement and quantification, the scores implicitly include the majority of the CSR dimensions, thus the ESG scores can be seen as a quantitative metric to measure the CSP.

An increasing number of companies are being appraised by sustainability rating agencies with an aim to provide relevant data for stakeholders who would like to use the non-financial information on the companies to evaluate their investments or construct portfolios (Friede et al., 2015). Different methodological approaches, sustainability standards, risk management weightings, and applied metrics lead to varied outcomes (Lopez et al., 2020; OECD, 2020b) in the sustainability scores leading to comparability challenges. While there are estimated to be over 500 ESG rankings available, a large share of investors and interested parties rely on the most impactful players (Eccles et al., 2019), such as MSCI ESG Ratings, RobecoSAM, Sustainalytics, and others.

1.2. Legislative background

An overview of the key milestones and legislative requirements has been summarised in Table 1.2, providing a concise outline of the major aspects that should be considered to understand the evolution of the current corporate sustainability landscape.

Table 1.2

Overview of the ESG Legislation Landscape (the author's analysis)

Milestone/legislation	Year	Applicability	Description
Global Reporting Initiative (GRI)	1997	Worldwide corporations	Sets milestones in the approach to how corporate sustainability practices are disclosed, focusing on financial impacts as well as climate, corporate governance, human rights, and social welfare.
UN Global Compact	2000	Worldwide corporations	Encourages companies to pursue sustainable business across economic, social, and governance pillars and strive to achieve the 17 sustainable development goals.
Principles for Responsible Investment (PRI)	2006	Worldwide signatories	Invites signatories to include ESG factors in their operations and investment considerations.
Non-Financial Reporting Directive (NFRD)	2014	EU public interest entities with >500 employees	Requires corporations to publish reports on their actions in environment protection, social and human rights domain, anti-corruption practices, and board diversity components.
Task Force on Climate-Related Financial Disclosures (TCFD)	2017	G20 member companies	Provides recommendations for companies to deliver clearer information to support informed capital allocation in relation to climate risks.
European Green Deal	2019	EU countries	Aims to make Europe climate-neutral by 2050 and promotes sustainable economic growth without resource depletion.
EU taxonomy	2020	EU financial services and companies	Classifies which products and services can be presented as sustainable, regulating the use of "climate-friendly" labels.
Sustainability-related disclosures in the	2021	EU financial services	Promotes transparency in sustainability-marked financial

Table 1.2 continued

financial services sector (SFDR)			products and services and discloses ESG policies, processes, and principle adverse impacts on sustainability areas.
Corporate Sustainability Reporting Directive (CSRD)	Proposed 2021, applicable from 2024; to SMEs from 2026	All EU companies having more than 250 employees and exceeding either 40 m EUR revenue or 20 m EUR balance sheet	Mandates reporting of ESG achievements, integrating sustainability domains in the overall annual report, thus balancing the importance of the financial and non-financial data.
"Women on Boards" Directive	2022	EU stock-listed companies; applicable from 2026	Aims at having at least 40 % of non-executive director posts or 33 % of all director posts filled by underrepresented gender.

The overview table clearly illustrates the dynamic nature of the corporate sustainability legislation, suggesting the significant adoption challenges that European corporations are currently facing.

1.3. Linking ESG disclosure and performance to financial results

ESG disclosure volume's tie to actual performance supports the Voluntary Disclosure theory; companies with better performance are more likely to disclose more (Dye, 1985; Verrecchia, 1983). Alternatively, one could argue that extensive disclosure only fosters greenwashing concerns rather than providing valuable content (Cho et al., 2015). Greenwashing, misleading communication by companies towards external stakeholders about the environmental performance of the overall corporation or specific product properties (Marquis et al., 2016) has increased along the corporate sustainability trend. It has been argued that particularly the fragmented regulatory environment can be one of the drivers for such behaviour (Delmas & Burbano, 2011). As there is still no one globally accepted sustainability reporting standard, the extent of the ESG disclosure varies greatly across (1) geographies due to differing regulations, (2) industries due to changing materiality, and (3) chosen reporting standards can be used for the disclosures (Ioannou & Serafeim, 2012). The punitive consequences for misstatements in ESG disclosures are still limited, limiting the incentives to put structures and processes in place to ensure unbiased disclosures (Delmas & Burbano, 2011).

Studies on ESG disclosure's relationship to performance have mixed results. Some show positive impacts of corporate social responsibility disclosure on sustainability performance

(Dhaliwal et al., 2014; Fatemi et al., 2018). Research approaches on the disclosure-performance topic range from relying solely on reported ESG disclosure level, using external ESG ratings, to employing self-developed methods (Dhaliwal et al., 2014). The most recent overarching meta-analysis has documented that only 26 % of the sample studies focusing on only ESG disclosures discovered a positive correlation with financial performance in contrast to 53 % of the studies that tackled ESG performance measures in the value generation analysis signalling the stronger effect of the "content over form" (Whelan et al., 2021).

Similarly, research on the link between ESG and financial performance finds that high ESG-performance companies can create higher risk-adjusted returns (Amel-Zadeh & Serafeim, 2017). Concerning CSP's impact on financial performance, academics have reached a marginal consensus. Several meta-studies find that around 90 % of the academic papers show a non-negative relationship between financial performance and ESG, proving the positive business case for ESG investing (Clark et al., 2015; Friede et al., 2015). Other individual studies find evidence suggesting a positive ESG impact on the company's profitability measures (Eccles et al., 2014; Velte, 2017). Also, reduced risk metrics are found to be attributed to better-scoring ESG companies (Giese et al., 2019; Henisz et al., 2019). The results of the study examining the relationship between ESG and financial performance in more than 1,000 research papers written between 2015 and 2020 found that a mere 8 % of them demonstrated a negative relationship (Whelan et al., 2021). This proves that the impact of the ESG is not diminishing over time so far.

Amid unified results showing a positive ESG-financial performance link, recent research has focused on quantifying ESG's impact on a company's market performance and valuation. Efficient market theory suggests that share prices reflect all available information, providing a rationale for companies to disclose additional financial data for higher valuation. Disclosure motivations include legitimacy, reduced regulatory burden, reputation, brand value, employee motivation, and hoped-for financial valuation improvements (Brooks & Oikonomou, 2018).

The evidence on the financial implications of the disclosures, contrary to the theory, is relatively ambiguous. Strong ESG performance is found to increase the firm's value, while ESG's weaknesses provide a negative valuation impact (Fatemi et al., 2018). Evidence also shows that companies excelling on material sustainability issues outperform their peers (Khan et al., 2016). Finally, also disclosure type impacts valuation, with separate ESG reports or those adhering to International Integrated Reporting Council guidelines offering the most positive effect (Mervelskemper & Streit, 2017).

Examining corporate sustainability, this chapter scrutinises evolving terms and ESG pillars. Distinguishing and overlapping CSR, CSP, and ESG enriches the understanding of these concepts. The ESG data providers' typology highlights diverse data collection methods and potential pitfalls. A timeline of ESG milestones shows legislative influences on ESG measurements. It evaluates the link between ESG disclosure and financial returns, spotlighting data quality challenges. The chapter responds to RQ1 by outlining ESG's evolution and legislative impacts, paving the way for the next chapter's exploration of the sustainability-value link.

2. ESG impact on the shareholder value concept

The corporation aims to maximise value, but the debate on whether it should prioritise stockholders or a broader set of stakeholders (Freeman, 1984; Friedman, 1970) has been a fundamental discussion in management science. ESG introduces the idea that a trade-off may not be necessary, and sustainable operations can benefit both. Chapter 2 provides an overview of traditional shareholder value drivers from academic literature and explores the potential impact of ESG on these principles.

2.1. Traditional shareholder value drivers

There's long been a debate on whether companies should prioritise short-term financial goals or long-term extra-financial interests, as outlined by Shareholder and Stakeholder theories (Friedman, 1970; Freeman, 1984). ESG concept serves as a mediator, fulfilling financial goals while benefiting all stakeholders, including society and employees. Research shows that stakeholder consideration does not always contradict profitability (Donaldson & Preston, 1995; Jones, 1995). Early literature mainly focused on financial aspects of shareholder value, with variables like growth rate, tax, and competitive advantage (Rappaport, 1986). Later, additional drivers such as reputation and strategic orientation (Walter, 1996) and stakeholder interests (Jensen, 2002) were included.

Moir et al. (2007) link stakeholder actions to three value drivers – 1) improved performance, (2) reduced costs of capital, and (3) reduced capital intensity, which ultimately translates into the changes in the share price and company's financial value. Porter & Kramer (2011) further bridge ESG and shareholder value through the shared value concept, analysing economic and societal values. This concept was enhanced by the UN Global Compact's tool linking sustainability efforts to performance (UN Global Compact, 2020). Bistrova & Lace proposed a model considering profitability, capital budgeting (cost of capital), management ethics, governance quality, and innovation capacity as shareholder value determinants (Bistrova & Lace, 2010). This was verified and expanded to include earnings quality and ownership characteristics in 2014 (Bistrova & Lace, 2016).

2.2. Discovering ESG performance implications on the shareholder value creation

Several methods, including bibliometric and content analysis, were used to identify the links between ESG aspects and shareholder value. These analyses focused on the keywords connecting corporate sustainability with a firm's financial and non-financial value.

Despite the vast literature on the subject, systematic literature selection was avoided due to the broad range of topics (Vourvachis & Woodward, 2015). Instead, a review of existing literature in Web of Science and Scopus databases was conducted using keywords like “ESG”, “environmental/social/governance”, and “corporate social responsibility”. The search was restricted to English-language scholarly articles. Abstracts were screened for relevance to ESG or corporate sustainability's impact on financial performance or shareholder value. Of 212 articles published between 1995 and 2020, 94 were suitable for bibliometric analysis using VOSviewer software, which created a network of crucial terms. This analysis revealed keyword clusters or co-occurrences around (1) corporate social responsibility, (2) corporate governance, and (3) financial performance. No direct ESG cluster has emerged due to the overlapping nature of the terms of CSR and ESG, as explained in Chapter 1 (Escrig-Olmedo et al., 2019). While additional insights about the connection of i.e. CSR and reporting or financial performance have been visualised, the co-occurrence analysis fails to provide deeper insights into the exact factors of how higher corporate sustainability translates into shareholder value or financial performance.

A qualitative content analysis and frequency analysis of selected literature was therefore conducted to supplement the initial bibliometric study. This step included a rigorous review of abstracts, prioritising empirical results on ESG's impact on company performance. From the final selection of 65 articles and working papers (1997–2020), 34 unique codes emerged, totalling 183 instances. These codes were grouped into eleven more significant categories whose frequencies were analysed. The frequency results of the content analysis in Fig. 2.1 show that higher ESG performance positively impacts various company-related factors, which have a consequent positive influence on the shareholder value of the company.

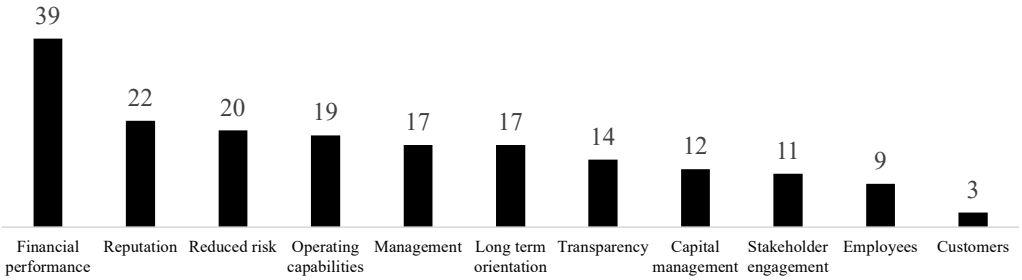

Fig. 2.1. Frequencies of the ESG impact categories (created by the author).

High ESG performance notably impacts financial factors, improving accounting and stock return performance, yielding higher shareholder value. This is linked to reduced risk, as higher sustainability companies often exhibit lower stock volatility, credit, and business risk. This allows investors to attribute a higher valuation based on risk-return trade-offs.

Healthy ESG performance benefits reputation, employee retention, and customer loyalty, providing a competitive advantage leading to higher sales growth and lower employee turnover

costs. It also fosters better operating capabilities, management quality, and efficient capital management, all contributing to a company's strategic decision-making and value creation. Capital management directly links to company value through reduced equity and debt costs and easier capital attraction.

Increased transparency and stakeholder engagement accompany better disclosures, reducing performance uncertainties. Top-performing ESG companies tend to be more long-term oriented and strategically minded, which positively impacts the sustainability of shareholder value.

The content analysis revealed eleven categories positively impacted by higher ESG performance, including direct financial implications, reduced risk, and efficient capital allocation. Of 183 coded instances, 39 (21 %) were related to direct financial implications, such as profitability, historically recognised as a key shareholder value driver. Sustainable investment's compelling motive is the potential to reduce risk, supported by the high placement of the "reduced risk" category. Efficient capital allocation also had a high frequency, confirming previous findings suggesting it influences shareholder value through lower capital costs and intensity, and efficient capital budgeting (Bistrova & Lace, 2016; Moir et al., 2007).

Next, the role of the management in long-term shareholder value creation and preservation has been crucial both in terms of higher accountability and better corporate governance (Bistrova & Lace, 2016), as well as strategic and long-term orientation (Walter, 1996). According to the results, it can be argued that the more sustainable companies have more efficient operating capabilities, which can be seen as the source of competitive advantage. In turn, superior efficiency and productivity also allow cost reduction, thus leading to a higher valuation of the company (Porter & Kramer, 2011). On the other hand, a large share of the impact still comes from various non-financial intermediary factors. According to Hillman & Keim (2001), "building better relations with primary stakeholders like employees, customers, suppliers, and communities could lead to increased shareholder wealth by helping firms develop intangible, valuable assets which can be sources of competitive advantage" (Hillman & Keim, 2001). The results of this study support this thesis and imply that particularly the qualitative, non-financial factors if summed up, have the most significant contribution to value creation. Such categories as reputation, transparency, stakeholder engagement, employees, and customer value signal a well-built primary stakeholder relationship (Walter, 1996).

All the factors captured as the result of the analysis are not homogenous and seemingly could be divided into two parts. On the one hand, there are primary effects such as increased financial performance or reduced risk, which directly impact the firm's value calculation formula and, therefore on the created long-term financial value for the shareholders. On the other hand, many of the revealed impact factors can be seen as having moderating effects – meaning that they do not directly contribute to the firm's value calculation but have an impact on the non-financial results and, therefore, provide an indirect effect on the long-term shareholders' value.

This study proposes a framework where ESG performance translates into sustainable shareholder value via direct and indirect value drivers, creating a comprehensive picture of how higher ESG performance can lead to a higher long-term shareholder value (Fig. 2.2).

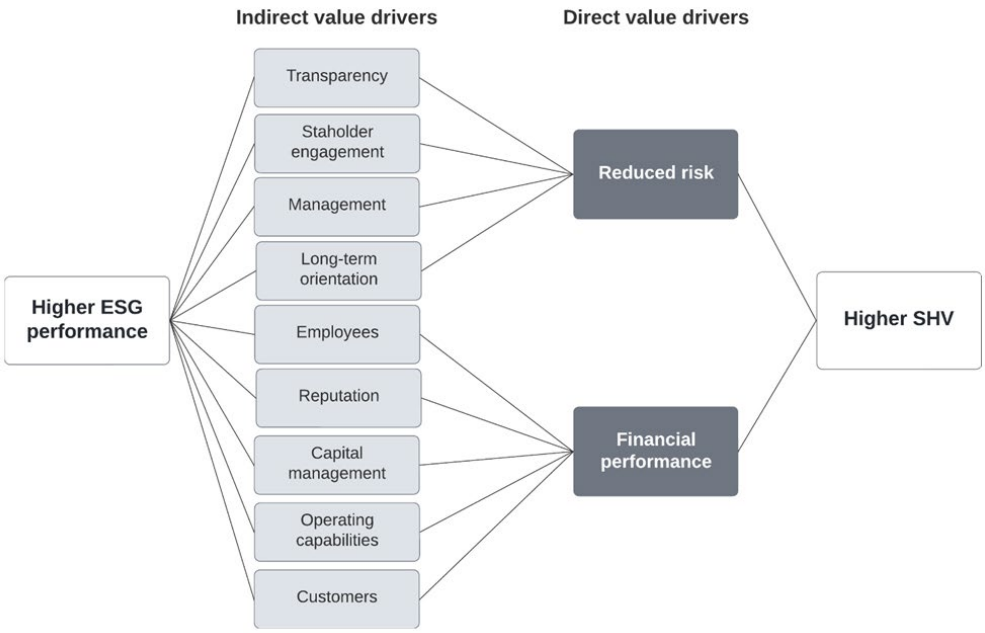

Fig. 2.2. ESG implication on the shareholder value – conceptual model created by the author based on the qualitative content and frequency analyses.

The studies and analysis comprised in this chapter answer the second research question – "How does a company's ESG implementation impact shareholder value?" – by identifying and analysing the various factors that bridge ESG performance relationship to the shareholder value. A comprehensive qualitative content analysis establishes eleven key categories linking ESG to shareholder value, shedding light on both direct and indirect value drivers. Having established the link between enhanced ESG performance and increased shareholder value, it is essential to delve into the factors that drive successful ESG implementation.

In the upcoming chapters, the author will examine the key drivers and obstacles to ESG adoption, with a special emphasis on the Central and Eastern European region, particularly the Baltic states. Chapter 3 will additionally provide a region-specific background analysis.

3. CEE corporate landscape from the ESG perspective

Higher long-term shareholder value is especially vital in emerging markets like the CEE countries due to lower stock market capitalisation, less developed financial markets, lower corporate disclosure, and higher political uncertainty. Despite these hurdles, the CEE region is characterised by high growth rates, contributing significantly to Europe's economy (Invest Europe, 2021a). ESG disclosures, proven to impact a company's value, could accelerate market development.

Therefore, this chapter undertakes to provide an insight into the reasons why ESG relevance is even more crucial in emerging economies like CEE, as well as assesses the current status quo of ESG implementation degree characterised by a) company mission statements analysis (Section 3.2), b) examination of ESG rating availability and its consequences on capital attraction (Section 3.3), and c) estimated ESG disclosure level following an examination of a sample of stock-listed companies in the Baltic states of Estonia, Latvia, and Lithuania (Section 3.4).

3.1. ESG relevance for the CEE markets

Given the rise of the corporate sustainability requirements and wider adaptation of the ESG standards, the logical question of its relevancy also arises concerning the CEE region. Is ESG becoming a mere hygienic factor that is expected to be implemented by every market player across the globe, or can it still be seen as a potential source of differentiation and competitive advantage? Strategic ESG implementation can be especially important in emerging economies with higher investor uncertainty. Studies show that sustainability measures increase transparency and reduce agency costs and information asymmetry, facilitating capital attraction (Cheng et al., 2006; Dhaliwal et al., 2011; Ioannou & Serafeim, 2019). ESG performance positively affects firm value, especially in countries with weaker market institutions (Ghoul et al., 2017).

The CEE region lags behind Western Europe regarding legal system performance, stock market activity, and policy implementation, according to Fraser Institute and UN PRI data (Fraser Institute, 2019; UN PRI, 2022). Also, concerning the ESG metric implementation level in the overall economy, CEE countries so far lag behind their Western European peers. So, for example, with respect to diversity and inclusion factors, the data shows that every CEE country scores below the Western European median in the overall labour force participation rate and in the political set-up as measured by the proportion of seats taken by females in the national parliaments. Currently, the only ESG facet, where multiple CEE countries outperform the remaining EU countries, is the environmental factor and its metrics. Given the lower level of urbanisation in Central Europe and the Baltics (63 %) as compared to the EU average of 75 %, according to the World Bank data for 2021 (The World Bank, 2021b), and the lower manufacturing output (constituting only 13 % of the total manufacturing value added of the EU) (The World Bank, 2021a), the CEE countries have remained relatively light in the relative contribution to the emissions and other types of

environmental harms compared to their Western European counterparts. Also, concerning renewable energy, the CEE region is mostly overperforming the EU average, as several of the CEE countries have historically used a higher share of alternative energy, such as hydropower, to partly fuel their economies and therefore have already been able to achieve a healthier energy mix.

3.2. Sustainability trend in the CEE – mission statement analysis

In 2012, Bistrova & Lace used mission statement analysis to verify the shareholder value commitment in the CEE companies. They found that only about 30 % of 85 listed CEE companies mentioned shareholders. Higher mentions were attributed to customers, quality, leadership, and market position (Bistrova & Lace, 2012). Over the past decade, global sustainability trends likely influenced updates to these mission statements, providing an opportunity for trend analysis. Mission statements are important in setting the company's course toward a comprehensive sustainability strategy (Analoui & Karami, 2002). Moreover, referrals to the fundamental business drivers of the company in their mission statements are proven to influence financial performance (Barth et al., 2001), thus underlying the importance that the mission statement can have on the overall business performance (Bartkus et al., 2006).

To analyse whether these factors have also been captured by the companies in the CEE region, a frequency analysis across 20 concepts was performed via text search software. The results (see Fig. 3.1) indicate that the highest focus is on sustainability-related metrics, including references to responsibility, innovations, environment, long-term orientation, and community. More than 90 % of the companies had at least one reference to these topics in their mission statements. The second highest priority was consumers – more than half of the companies referred to their customers in their mission statements. References to the stakeholders were found more frequently than shareholders.

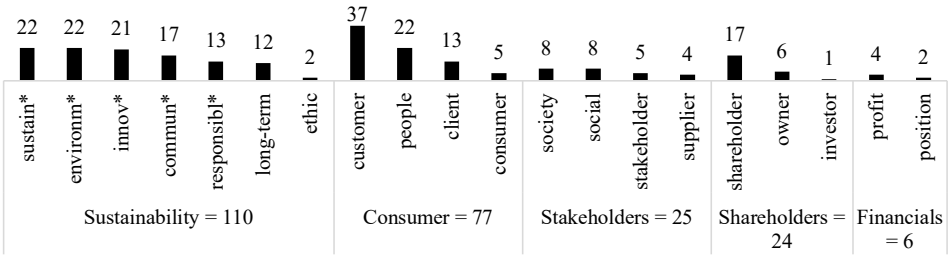

Fig. 3.1. Results of the mission statement analysis of CEE companies (created by the author).

To analyse the mission statement changes over the last decade, the sample data of Bistrova & Lace (2012) used for the mission statement analysis was retrieved, and the updates to the mission statements of the companies used in 2012 were added as of February 2021. To allow for direct

comparison, the same companies were chosen for the analysis ("like-for-like" sample). From the previously analysed sample of 122 companies and 85 available mission statements, 70 updates as of 2021 were available due to some companies undergoing restructuring or liquidation.

Changes to mission statements over the past decade, based on Bistrova & Lace's 2012 sample, showed a decrease in shareholder commitment (–10 mentions). Instead, there was an increase in references to societal contributions and sustainable operations (people +7, responsibl* +7, commun* +4, society +3). This shift towards a more pronounced stakeholder orientation and sustainable actions indicates a preference for long-term shareholder value over short-term isolated financial results. The application of the theoretical framework on the mission statement analysis allows the conclusion that over the last decade, the shift of the companies in the CEE region has happened in favour of a more pronounced stakeholder orientation and long-term shareholder value achievement via sustainable actions. While the companies which signalled their shareholder value commitment simultaneously had a focus on profitability and financial performance, it seems that over the decade, the focus has shifted, and companies, via their mission statements, put more emphasis on a broader contribution to society, environment, and long-term value creation via sustainable performance. The significant decrease in the mention of profitability and market focus by the companies over the decade corresponds to the trend that the long-term shareholder value is set as an ultimate goal created via high ESG results and, therefore, better financial performance.

3.3. ESG rating coverage in CEE and its impact on investor behaviour

The increasing relevance of corporate sustainability in the CEE region, concluded from mission statement analysis, is undermined by the region's relatively low stock market capitalisation, affecting both sustainability aspects and corporations. The dominant ESG evaluation method involves independent rating agencies. Using unique methodologies, they provide performance assessments as a single score or rating, enabling straightforward evaluation and comparison (Berg et al., 2019). The rating availability, however, is currently an unresolved challenge. According to OECD, the market coverage of the ESG ratings is relatively low – while in the US, approximately 25 % of all the public companies have an external ESG score, only 10 % of the European companies have a score available (OECD, 2020b). As the ESG rating availability, among other factors, strongly relies on the obtainable data, the percentage is far lower in the regions of Europe that lag in sustainability implementation. As such, only very few companies operating in the CEE region have external ESG scoring data available. Large-capitalisation companies dominate the ESG-rated investment universe, with smaller companies drifting from sustainable investment considerations due to the absence of ESG scoring (Boffo & Patalano, 2020).

A study on ESG score availability for 2000 large CEE stock-listed companies showed only 4 % of total scores attributed to these companies, despite them being EU members with similar ESG requirements. A stark contrast to 72 % scores granted to firms listed in the UK, Germany, France, Sweden, Italy, and Switzerland, this discrepancy points to an ESG rating deficit impacting

sustainable investments in the CEE countries. From a maximum of three different sustainability-related scores (Sustainalytics, RobecoSAM, and MSCI), 97 % of the sample companies had none. In line with the findings of Boffo & Patalano (2020), when measured by the market capitalisation, however, the companies having at least one ESG rating covered 88 % of the total market capitalisation of the entire sample, implying the significant impact of the size on the external ESG score availability (Boffo & Patalano, 2020). The most common score available for the CEE companies was the RobecoSAM sustainability ranking (open to 54 companies).

54 ESG-scored CEE companies averaged a sustainability rank 27.4, 21 points lower than the European average, suggesting the developing ESG practices. The study included a volume test on a similar synthetic group of 54 CEE companies without ESG scores, with average market capitalisation significantly lower (169 bn EUR vs 9 bn EUR). The study used F-tests and t-tests to evaluate variance and potential return differences. The results showed a significant difference in average trading volume, implying higher share turnover and liquidity for companies with an external ESG score. However, due to diverse average market capitalisation rates in both sub-samples, it was unclear if the results were influenced by the size premium. To address this, two additional sub-samples were created by removing the largest companies from the ESG sample. The t-tests confirmed similar results to the first specification, showing that even after removing the market capitalisation effect, trading volume remained lower for companies without ESG scores, confirming the negative liquidity effect of the lack of ESG scores.

The results underline the disadvantage of the companies which do not have external ESG scores, resulting in a lower trading volume. This finding is significant for the companies listed in the CEE stock exchanges, as the financial markets there are underdeveloped relative to their Western European peers and lack liquidity; therefore, the investors often tend to look sceptical towards the investments there.

3.4. ESG disclosure level in the Baltics

Given the low level of ESG score availability across the CEE corporations, alternative methods must be applied to estimate the current status quo of ESG implementation. A specific sub-sample of the CEE corporations was chosen for analysis – stock-listed corporations of the Baltic states – Estonia, Latvia, and Lithuania. Given the rapid pace of development of corporate sustainability and its regulatory requirements, the analysis was performed twice – in 2020 and in 2022. The latest results stem from qualitative content analysis of sustainability reports from 38 NASDAQ Baltic stock exchange companies, maintaining an 85 % comparability across the samples.

The ESG disclosure score computation approach adopted initially from Roca & Searcy (2012) was applied. A similar approach has been used by Bakar et al. (2019) and is broadly in line with Bloomberg's disclosure score calculation method. The method relies on content analysis screening through the disclosures and cross-checking the inclusion of the specific measures and factors by the specific companies. The checklist in 2022 included 119 factors (35 for E, 45 for S and 38 for

G), up from 106 in 2020, informed by NASDAQ ESG Reporting guidelines, GRI Reports, NASDAQ Corporate Governance Code, and UN SDG's. The reports analysed included various forms of ESG and non-financial reports. The ESG disclosure score was calculated by dividing the sum of individual disclosure items by 119 in 2022 and 106 in 2020, with results interpreted as a relative degree of ESG transparency rather than overall ESG performance. The score was presented in percentage terms for easier comparability.

The average ESG disclosure score improved by 7 p.p. to 47 % in 2022, from 40 % in 2020, with one corporation even achieving a 93 % transparency level in 2022 (up from 71 % in 2020) and the minimum transparency score of 12 % (up from 8 % in 2020). Companies in the utility sector demonstrated the highest ESG disclosure level, averaging 63 %, while those in real estate had the lowest scores. The results across the pillars, as explained in Fig. 3.2 have remained consistent with the patterns observed in 2020 – the highest transparency level is achieved across the governance pillar (60 %), followed by social disclosures at 48 % level and environmental pillar of 31 %. The average disclosure level has increased since 2020 across all the ESG factors.

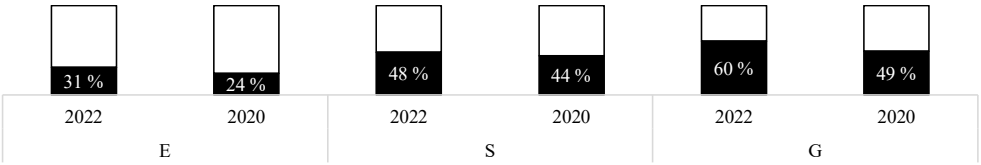

Fig. 3.2. Disclosed ESG information level by factors in the Baltic stock-listed companies (% of 100 %) (created by the author).

Overall, the results show a moderate level of ESG disclosure across the stock-listed companies of the Baltic countries, once again signalling the need for additional focus on this topic for the examined companies. Nevertheless, the positive trend of increased corporate sustainability focus is confirmed by both – the mission statement and ESG disclosure analysis. Stock exchanges are generally in a unique position to contribute to a broader implementation of ESG practices in company reporting standards and, therefore, higher overall transparency of the capital markets (Bizoumi et al., 2019).

However, given the low degree of stock market capitalisation in CEE, assessment of only listed companies is insufficient, necessitating exploration of other drivers and potential obstacles for broader ESG implementation.

4. Factors impacting ESG adoption

The degree of ESG disclosure and performance are studied to be affected by multiple factors that can be divided into external and internal cohorts. Section 4.1 condenses the impacts of these factors into a succinct summary, with empirical studies supplementing the theoretical foundation in Section 4.2.

4.1. Drivers of ESG adoption

Theory and academic studies suggest **three main external factors** impacting ESG adoption: (1) society's expectations, (2) regulatory and compliance effects, and (3) industry factors.

Firstly, **societal expectations** are based on the legitimacy theory, which posits that corporations continuously work within societal norms to sustain their legitimacy and longevity (Dowling & Pfeffer, 1975; Deegan, 2002). Legitimacy theory, as captured by variables related to public or social visibility, can be used to explain the adoption and disclosure of ESG-related information via higher visibility, leading a company to adopt higher levels of ethical practices and ESG disclosure (Reverte, 2009). This is further supported by consumer behaviour trends indicating an increasing demand for sustainable products and corporate transparency (Arvidsson & Dumay, 2022; The Economist, 2021) as well as willingness to pay more for sustainable products (Deloitte, 2021; Du et al., 2013). Alongside, the importance of maintaining a positive reputation incentivises corporations to engage in ESG disclosures, underlining the relevance of reputational factors as important determinants of a company's sustainability-related disclosures (Bloomberg Law, 2021; Philippe & Durand, 2011; PwC, 2021). Finally, associations and similar societal communities contribute to corporate sustainability by sharing best practices and influencing members' social performance (Besser & Miller, 2011).

Secondly, **regulatory and compliance effects** exert a significant influence on ESG adoption. Institutional theory underscores societal structures, regulations, and monitoring bodies impact corporate behaviour (Campbell, 2007; DiMaggio & Powell, 1983). This theory aids in understanding ESG disclosure variances, as studies reveal cross-country disclosure differences attributable to unique institutional, cultural, and political factors (Baldini et al., 2018; Ioannou & Serafeim, 2019). Consequently, legislation is one of the key drivers fostering wider ESG adoption across corporations, particularly significant in the EU due to its dual effect – motivating corporations to implement sustainability measures and urging investors to request ESG information. Surveys confirm regulatory demands as a main driver of sustainability in investment decisions (Barnett Waddingham, 2022). Furthermore, regulations like the EU's corporate supply chain sustainability rule and the Green Public Procurement (GPP) Directive, as well as specific certifications, indirectly prompt ESG adoption in smaller entities (Deutsche Bank, 2022; Lăzăroiu et al., 2020).

Finally, **industry-specific factors** can provide additional explanatory power when discussing ESG performance (Waddock & Graves, 1997) due to varying regulatory constraints and industry

norms (Aragón-Correa et al., 2016). Industries causing substantial negative externalities or facing systematic social and environmental issues are more likely to engage in ESG disclosures (Garcia et al., 2017; Tamimi & Sebastianelli, 2017). Additionally, competition intensity within industry sectors motivates CSR as a differentiating competitive strategy, influencing ESG performance (Campbell, 2007; Flammer, 2015; Hawn & Kang, 2013). However, the significance of industry and competitive landscape in ESG adoption may decrease as ESG activities expand due to sustainability practices convergence within industries over time, especially following adoption by market leaders (Ioannou & Serafeim, 2019).

The internal factors affecting ESG adoption could be divided into (1) business model-related aspects, (2) size and resource availability, (3) management, and (4) ownership.

Regarding **business model-**related factors, ESG activities can be strategically linked to creating market opportunities and enhancing competitiveness (Porter & Linde, 1995). Companies that can integrate ESG-compliant strategies in their business models are expected to achieve a more significant impact on shareholder value (Ioannou & Serafeim, 2019). Emphasising material ESG issues and innovating in products, processes, and business models lead to competitive advantages and sustainability-related outcomes (Antikainen & Valkokari, 2016; Eccles et al., 2014). Purpose-driven business models can improve performance and employee engagement, with high-purpose firms showing better financial performance (Gartenberg et al., 2016). As a result, companies are increasingly aligning their values and business models with higher purpose attainment and the rise of new organisational categories, such as impact startups, suggests business model-related factors will continue to be a relevant ESG driver (Gidron et al., 2021).

Following the legitimacy theory as captured by the implied higher public visibility, numerous studies have highlighted that social responsibility disclosure is linked to the company **size.** The research on organisational legitimacy means that larger and more visible organisations experience more pressure to conform to societal expectations (Powell & Bromley, 2015) as they are most visible to the public (Suchman, 1995). A positive relationship between social performance and both – the age and size of the company have been found (Moore, 2001). Larger and more profitable companies are more likely to have the financial resources to optimise the sustainability facets of their operations; therefore, they are also more likely to achieve higher ESG disclosure levels (Artiach et al., 2010). The overwhelming share of academic evidence shows that large companies are more likely to disclose ESG results than small ones (Daugaard & Ding, 2022; Drempetic et al., 2020; Lozano, 2015). In contrast, limited resources may hinder smaller companies from achieving higher ESG performance and transparency (Habib & Hasan, 2019; Russo & Perrini, 2010).

The firm-level determinant, which has been studied to affect ESG adoption is the **company's leadership** (Baldini et al., 2018), especially applicable to the chief executive officer (CEO) and the company's board characteristics. Based on the upper echelon theory, CEO traits directly affect organisational decisions, hence impacting ESG outcomes (Hambrick & Mason, 1984). The CEO's characteristics and traits influence ESG outcomes, with external CEOs with specific attributes showing the best ESG performance (Villalba-Ríos et al., 2022). Also, CEO incentives positively

contribute to ESG performance (Velte, 2020). The "CEO effect" is found to be a strong ESG determinant across a variety of other factors, suggesting that particularly the focus on the key leader of the management board might be worthwhile when considering the ESG drivers of an organisation (Grace & Gehman, 2022). In addition, also board diversity, including gender, age, nationality, and education, is associated with higher ESG disclosure and better non-financial performance (Milliken & Martins, 1996; Williams & O'Reilly, 1998). Studies find that gender diversity on the board leads to increased ESG performance across a span of different countries (Bravo & Reguera-Alvarado, 2019; Cucari et al., 2018; Velte, 2020; Yaseen et al., 2019). Corporate sustainability is also positively related to internal corporate governance mechanisms (Crifo et al., 2019). Global studies find that firms with a better board gender diversity exhibit higher corporate sustainability performance (Kamarudin et al., 2021). Also, the nationality and educational background diversity of the board of directors is found to impact the corporate sustainability disclosure level (Harjoto et al., 2018), so is the relative proportion of the females on the board (Fernandez-Feijoo et al., 2012).

Finally, **ownership** type differentiates ESG adoption as owners have varying priorities (Barnea & Rubin, 2010). Sustainability ratings are positively linked to ownership by institutions and foreign investors, while ownership by managers and families is negatively associated with social performance ratings (Rees & Rodionova, 2015; Soliman et al., 2013). State-owned enterprises (SOEs) play a crucial role in driving environmental agendas, and research suggests progress in integrating sustainability values in SOEs (Hsu et al., 2021; OECD, 2020a). As financial investors are constantly motivated to include non-financial risks and opportunities in the financial investment evaluation process, there seems to be a positive link coming from the financial investor presence among the owners of the companies (van Duuren et al., 2016). The specific long-term and active relationship between the financial investors and the companies ensures that the private equity (PE) and venture capital (VC) companies are particularly well suited to integrate and improve the ESG standards in their portfolio companies (Invest Europe, 2021b). Also, banks and asset managers indirectly pressure companies to improve sustainability standards through ESG integration in credit risk analysis and decision-making (OECD, 2020b). Studies reveal increased ESG integration in credit risk analysis and decision-making among institutional investors globally (EY, 2020) and in the CEE market (Deloitte, 2020). Nevertheless, financial investors also claim that data availability and quality hinder wider ESG adoption in the evaluation processes (Morrison & Foerster LLP, 2020)

4.2. Assessing the drivers and obstacles of ESG adoption in an empirical setting

The previous section has provided a theoretical overview of the internal and external factors fostering wider ESG adoption and improving corporate sustainability performance. Next, an

overview of several empirical studies relating to the specific Baltic region will be explored to provide novel insights about wider conclusions of academic literature.

4.2.1. Regulation – a case study of Latvian SOEs

Latvian SOEs were examined concerning regulation as a driver for sustainability disclosure, in light of 2021 legislative amendments that necessitated non-financial reporting within their annual reports. The portfolio of Latvian SOEs is diverse, from energy sector entities to public hospitals and cultural institutions. The reporting criteria were applied to 19 of the 73 SOEs in the 2020 portfolio (Cross-Sectoral Coordination Centre, n.d.). A survey and in-depth interviews were conducted to gauge ESG implementation from the 19 affected SOEs and 12 other SOEs that exceeded the reporting threshold by at least one dimension. The anonymous evaluation, open from April 19, 2022, to April 28, 2022, was addressed directly to the executive-level decisionmakers or sustainability officers and focused on (1) ESG disclosure maturity, (2) responsibilities and involvement of the management board, and (3) experience of the ESG implementation and any obstacles encountered, revealing a response rate of 68 %. An additional unstructured interview about the topic was therefore held also with the CSCC representative.

Responses indicated that sustainability implementation was varied – when asked to evaluate the degree of sustainability implementation in their companies, the respondents, on average, estimated themselves at 6.1 out of 10, and transition to ESG reporting was challenging for many due to the insufficient preparation time. Despite the legislative changes, there was a general lack of preparedness (35 % complained about insufficient data and 30 % about the non-existing process), time pressure (19 %) and a lack of materiality assessment (17 %) and stakeholder dialogue (42 %), creating a risk of greenwashing. Future plans indicated a continued focus on ESG targets for 52 % of the respondents, and the need to distinguish between public policy targets and sustainability objectives was noted. While some of the aspects, most commonly covering the S and G dimensions, could create an overlap with the assigned public policy priorities, the environmental factors, on the other hand, frequently require higher short-term investment in favour of larger, longer-term benefits. The integration of sustainability favouring priorities in government policies could, therefore, be a logical step to ensure this alignment (OECD, 2020a). The study confirmed that policy change is an important driving force of the ESG disclosures across the SOEs.

4.2.2. Board diversity impact on ESG disclosure of the Baltic stock-listed companies

To empirically test whether the board diversity metrics explain differences in the ESG disclosure volume in the Baltic context, a sample of 43 stock-listed companies of the Baltic region was utilised. Employing the previously in Section 3.4 described ESG disclosure score computational method based on Roca & Searcy (2012), the ESG disclosure score was computed based on a checklist of ESG metrics. Board diversity was measured by the board size and female representation. No further diversity measures were used due to data limitations. To allow for the

differences in the corporate governance structure among the sample companies, the board size variable (BSIZE) was measured as the sum of the members of management and supervisory boards.

The average disclosure score for the listed Baltic companies calculated was 40 %, varying from 8 % to 71 %. The board size variable suggested that the average total board member count is 7.51 with a maximum of 15 members in both management and supervisory boards. In addition, the board diversity variables describe that, on average, only 17 % of management board members and 12 % of the supervisory board members are women. These numbers suggest a less gender-diverse board composition than in Western Europe but comparable to other CEE countries. Pearson correlation matrix shows a positive correlation between all board diversity variables and ESG transparency score (Table 4.1).

Table 4.1

Pearson Correlation Matrix (the author's calculation)

	ESG	***PROF***	***SIZE***	***BSIZE***	***WSB***	***WMB***	***W%***	***SB***
ESG	1	-0.131	0.319**	0.283*	0.351**	0.338**	0.361**	0.181

*ESG – ESG disclosure score; PROF – ROE for FY2019; SIZE – capitalisation as of 21.10.2020; BSIZE – size of boards in the reporting year; WSB – % of women on the supervisory board; WMB – % of women on the management board; W% – % of women on both boards; SB – 1 if the company has a supervisory board. *, **. *** correlation is significant at 0.10, 0.05 or 0.01 (2-tailed).*

To determine whether there is a significant non-financial disclosure score difference between the companies having female members on their boards, independent sample t-tests were carried out. As the first step, F-tests were carried out to determine the differences in variances of the samples. The data reveals that only female representation on the supervisory board significantly impacts ESG scores, with companies having a female board member averaging a 48 % score, compared to 38 % for those without. T-tests suggest this effect is from female participation, not merely having a supervisory board. Further, companies with larger boards (7 or more members) show a significantly higher ESG transparency score (47 %) than those with smaller boards (35 %). These findings support theories suggesting that larger, diverse boards bring additional skills and values, enhancing attention to sustainability and non-financial activities. They also affirm the positive impact of female participation in decision-making bodies on non-financial disclosures.

4.2.3. Financial investors

Financial investors have been proven to have a significant power to impact the ESG adoption. Based on the regulations they must comply with themselves; they act as multipliers by implying similar obligations to their investment companies. To obtain a more qualitative view of ESG factor application in the Baltic region, a study of the financial investors, assets managers and banks was performed. It focused on ESG factor importance, evaluation methods, and current obstacles, gathering anonymous input from 37 respondents (66 % response rate) of 10 asset managers, 9 VCs,

5 banks, 11 PEs, and 2 early-stage funds. Further understanding was obtained in four in-depth interviews.

The survey evaluated investors' sentiments towards sustainability in financial decision-making. The results showed that most respondents believe that ESG factors should be considered by asset managers (87 %), PE funds (84 %), banks (81 %) and venture capital funds (76 %). 81 % had experience in ESG due diligence, and none deemed it valueless. The main ESG implementation drivers were global trends (70 %), regulatory requirements, and risk reduction (35 % each). 73 % saw ESG performance as a value driver. 49 % considered all ESG factors equally important.

The large share of ESG-integrating financiers and generally the positive sentiment towards the ESG inclusion goes in line with the previous conclusion that capital owners can be one of the primary drivers, ensuring that certain level of ESG compliance is achieved by the investment portfolio (Eurosif, 2016). As highlighted by a recent study about investment funds in Latvia, the funding is still largely dependent on local or international public resources (government, EU funds, EBRD, etc). As found at the time of the study, there were no VC funds in Latvia without public capital (Matisone & Lāce, 2017). This finding partly explains the results – as a significant share of the sample companies manage capital, which is based on public resources, they have an implied requirement of at least a high-level sustainability risk evaluation in their investment process.

Despite positive sentiments, challenges remain. Only 16 % saw no obstacles in ESG data application, and 86 % were dissatisfied with the volume and quality of non-financial data provided by companies. Particularly, there is a gap in environmental data. Data scarcity is most prominent in SMEs and privately held firms that are often targets for local banks and investors. Regarding data sources, 87 % relied on in-house research, while external providers were used less frequently.

In the studies, the lack of proper benchmark data was found to be another meaningful obstacle – as the privately held, mostly SMEs, can hardly be comparable to the globally listed peers, the financial investors are frequently struggling to understand the reasonable level of the metrics measured (Kotsantonis & Serafeim, 2019). Also, as noted by several respondents, due to the different reporting approaches, industries, and materiality, the ESG data among the portfolio companies are rarely comparable, leading to an overall benchmarking problem in the market.

Finally, while it is difficult to precisely measure the extent of ESG factor importance, the authors tried to estimate this figure by asking the respondents to appraise the approximate weight that sustainability factors cover in the overall investment evaluation process. The average result of the sample on a scale from 1 to 10 turned out to be 3.9 (median score of 3), corresponding to a weight of 0.39 in the decision-making. In line with the assumption, the results show that banks and asset management companies currently put the most effort into the ESG factor inclusion (4.6 and 4.1, respectively), while PE/VC funds and early-stage funds are slightly below (3.8).

4.2.4. Ownership and governance

Finally, to obtain an overall perspective of the further drivers and hindering aspects of ESG adoption, a study was performed combining corporations of various sizes and ownership backgrounds. A country-specific approach focusing on Latvia was chosen to ease the comparability by electronically distributing a survey to 200 medium and large companies operating in Latvia, including the hundred revenue-wise largest companies in the period between October 2021 and December 2021, revealing a response rate of 30 %. The core part of the questionnaire consisted of twenty multiple-choice and closed-end questions focusing on (1) the degree of ESG awareness, implementation status and disclosures, (2) reasons and responsibilities with respect to the sustainability of the operations, and (3) observed obstacles in ESG implementation journey. In addition, to better explain the results, three in-depth interviews with companies of differing ownership types (an SOE, a subsidiary of a wider international group, and a locally privately held company) were organised.

The results show that when evaluating the degree of ESG implementation, 82 % indicated that the company's leadership is aware of the ESG concept in general, and the average implementation score was 5.45 (out of 10), suggesting a trend towards sustainability implementation among mid-to-large-sized Latvian companies. Only 56 % of respondents reported that ESG was under direct management oversight, signalling that the ESG topic is still not among the top priorities of the company executives. ESG implementation results differed significantly based on ownership type (see Fig. 4.1). 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. This result also alignes with previous studies (Barnea & Rubin, 2010; Soliman et al., 2013).

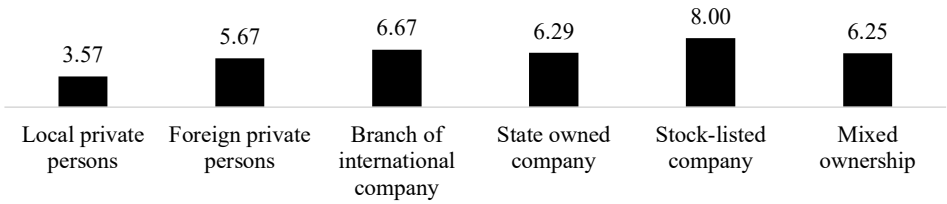

Fig. 4.1. ESG self-assessment of the corporations across ownership (scale out of 10) (created by the author based on survey results).

Also, the diversity of the management board and the existence of a supervisory board seem to create a difference in the self-assessed ESG level. Companies having no females on the management board rank themselves lower (on average 4.59), while companies having at least one female in the 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.

Concerning ESG disclosure, the practices 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. 72 % of respondent companies had not performed a materiality assessment, which could lead to unclear sustainability priorities. Additionally, 60 % admitted not having performed a stakeholder dialogue to understand important ESG matters. In terms of obstacles to sustainability practice implementation, lack of motivation (46.3 %), difficulties in measuring ESG factors (31.3 %), and costs associated with sustainable operations (29.9 %) were mentioned.

Comparing ESG self-assessment with estimated future sustainability importance indicated a perceived lack of motivation. The average estimated future ESG importance score (5.3 out of 10) was even lower than the current ESG implementation score (5.45). 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 the ESG elements in the future. The need for educational measures to overcome knowledge gaps and disclosure difficulties, as well as broader measures such as regulations, incentives, and positive enforcements are therefore suggested by these results.

Overall, the results of the summarised empirical studies in Section 4.2 provide additional insights into the academic literature, allowing the author to determine and confirm the set of factors affecting ESG adoption in corporations. In addition, the empirical results additionally have offered the insight that particularly the regulatory and ownership factors, as well as management team characteristics (such as diversity and existence of a supervisory board), could be important in explaining the differences among various levels of ESG adoption. An overview of the compiled list of the internal and external ESG drivers as recognised from the literature and the empirical studies is depicted in Fig. 4.3. It differentiates between the seven main drivers and 24 indicators explaining each of the main drivers. Four of the drivers (ownership, organisation, management, and resource base) can be associated with firm-internal factors, while the remaining three (society, regulation, and industry) correspond to external market factors.

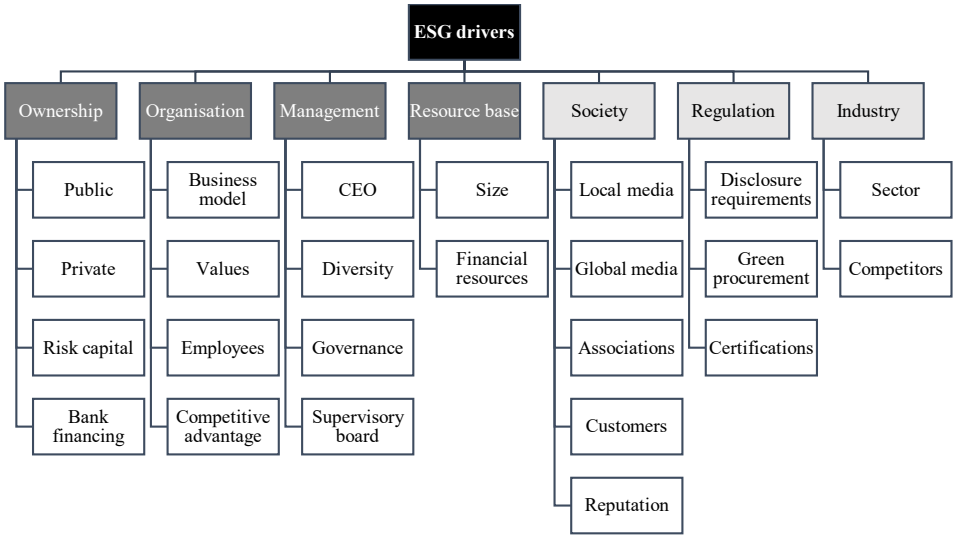

Fig. 4.2. Overview of ESG drivers (developed by the author based on literature)

In terms of barriers – it has been recognised that several hurdles impede ESG implementation, ranging from a lack of standardisation in ESG data collection and reporting to insufficient comprehension of ESG concepts among top executives and the workforce, which, in turn, can lead to limited dedication to sustainability implementation and reluctance to embrace change. Another significant roadblock that further constrains ESG adoption is resource scarcity, encompassing financial, human, and technical resources that corporations so far do not prioritise, likely due to the trade-off between the long-term perspective of such an investment and short-term costs. This limitation often results in a slower adoption of sustainability disclosures by companies and investors. The insights and results encompassed in Chapter 4 allow to answer the RQ3 – What are the drivers and barriers impacting effective ESG implementation?

While Chapter 2 delved into the relationship between enhanced ESG performance and shareholder value, Chapter 4 followed up with an in-depth examination of the key factors that drive ESG implementation, linking ESG performance to higher shareholder value. The latter was achieved by drawing upon the existing academic literature and supplementing it with empirical studies focused specifically on corporations in the Baltic region. The proposed conceptual model identifies key factors driving ESG performance, including internal factors (size, resources, business model, management, ownership) and external drivers (global trends, societal requests, competition, and regulations). While these drivers vary across companies, generalisation is possible. Research suggests that a company's resource base and ownership/management characteristics significantly influence ESG outcomes. These factors evolve throughout a company's life cycle; therefore, the next chapter explores ESG drivers using the company life cycle model, offering a nuanced understanding of how these drivers change over time.

5. Drivers of effective ESG implementation across company life cycle stages

The final chapter of the Thesis links corporate life cycle stages with pertinent ESG drivers. Section 5.1 outlines the corporate life cycle theory, touching on various definitions, distinct development phases, and metrics for assessing a company's stage. Section 5.2 reviews literature and evidence linking sustainability decisions to specific corporate stages, leading to a conceptual model linking ESG drivers to these stages. Expert opinion via the AHP method quantifies different ESG drivers' impact across varying life cycle stages to arrive at an empirical model of ESG drivers at different corporate stages.

5.1. Corporate life cycle theory

Corporate life cycle theory initially stems from organisational science literature. The theory of the corporate life cycle predicts that all organisations go through a similar pattern of development. Each stage of the described cycle predicts certain financial implications, focus areas, environmental and market factors, as well as managerial decision-making facets that underline the respective development stage (Mueller, 1972). Academic research tends to divide the firm's life cycle into periods that are illustrious by firm-related characteristics such as the degree of risk or uncertainty, asset size, and investment opportunities (Gulec & Karacaer, 2017).

While all based on a similar theoretical background, there is a wide variety of assumptions with respect to the specific life stage phases. The certain specification of the number of phases ranges from three (Anthony & Ramesh, 1992) up to ten (Adizes, 2004). Arguably, the most frequently represented versions of the life cycle consist of five stages. The empirically tested version of Lester et al. (2003) comprises multiple versions of the five-stage models and consolidates them into a single five-stage model based on observations by Hanks (Hanks, 1990). The most extended version offered by Adizes (1979) comprises up to ten separate phases forming a company’s development path divided into five initial sub-stages of growing followed by the consequent five aging sub-stages(Adizes, 1979).

In terms of choosing one form of the model for further application, the academic evidence is divergent suggesting that each application area might benefit from a various degree of specificity. The findings of various scholars speak in favour of both – less detailed versions of the life cycle model, such as Anthony and Ramesh’s (1992) life cycle classification procedure, as well as more extensive versions such as Adizes’. Despite the various stage specifications offered by the academic literature, the life cycle theory proposes that firms inevitably evolve and transition from one phase of development to another (Hanks, 1990). While initially it was theorised that companies follow the stages in a more or less linear pattern similar to the product life cycle paths, Miller & Friesen (1984) noted that corporations due to their complexity, contrary, may exhibit faster changes

from one phase to another, in certain cases also jumping over to later stages very fast or even returning to previous ones. The competitive advantages and disadvantages may change over time, impacting the respective development patterns (Helfat & Peteraf, 2003).

Companies may face internal or external threats and encounter opportunities in different life cycle stages. Appropriate determination of the life cycle stage helps the company's leadership and decision-makers select the appropriate strategy angles distinctive to the life cycle stage (Adizes, 1979). Measuring the company's lifecycle stage is not trivial – neither academically nor empirically. Given the evidence on the non-linear development pattern of the corporations, even basic measures, such as time since the corporation's inception, are misleading, as some of the companies grow considerably faster than others, reaching certain financial sizes with considerable variance (Miller & Friesen, 1984). Also, absolute financial measures offer limited explanatory power given that external factors such as the country of incorporation and the respective market size can significantly impact the potential that the corporation can achieve in terms of absolute financial size (Faff et al., 2016). Multiple other contributions to academic literature similarly imply that corporate life cycle stages are strongly related to strategic and financial decisions. Investments and equity proportion decrease with the firm life cycle's stage (Faff et al., 2016). Debt issuance and cash holdings, on the other hand, rise in the introduction and growth stages and decline in the mature and decline stages of the firm's life cycle. Similarly, takeover activity using the earned and contributed capital mix relation has also been found to signal the association between a firm's life cycle assessment and the likelihood of becoming a bidder (Owen & Yawson, 2010).

Besides the quantitative methods, there are also qualitative assessments for understanding the life cycle. Adizes suggests using an assessment questionnaire for the company's management to judge the company's respective life cycle stage. The assessment questionnaire, next to a standard assessment of employee count, location, and industry, includes a set of more subjective questions relating to risk-taking attitudes, general financial performance and market position, decision-making processes, and leadership (Adizes, n.d.). Also, other authors like Cao Yu et al. (2009) have used questionnaires to determine the life cycle of companies.

All in all, limitations are present and documented concerning all of the previously summarised approaches. Hence, no consensus measure is found to be superior to others. In addition, there are gaps in the literature concerning privately held companies, confirming that existing studies have mostly focused on the examination of publicly listed companies (Habib & Hasan, 2019).

5.2. ESG drivers at different company life cycle stages

This section will aim to summarise the existing academic literature on the ESG decision correlation to corporate life cycle stages. A conceptual model based on the academic literature is to be derived as a result of this review, serving as the basis for developing and testing a set of drivers for the specific sample of the Baltic companies and arriving at a model specification tailored to the Baltic region corporations.

5.2.1. Combining corporate life cycle stages with corporate sustainability decisions

In line with the changes in organisational structures and financial decisions in terms of investments, reporting, financial planning, and dividends, a strand of academic literature has concluded that the respective life cycle stages and transitions between them have an impact also on the corporate governance mechanisms and social responsibility actions (Habib & Hasan, 2019). Evidence suggests a correlation between corporate sustainability practices and the life cycle stages of firms (Diebecker et al., 2017; Gamal et al., 2022). Adopting financial policies based on the life cycle stages also includes effects on ESG disclosure practices (Atif et al., 2022). Life cycle theory, when applied practically, provides the organisation with relevant action recommendations and assessment of focus areas to improve the competitive advantage and meet the demands of stakeholders (Adizes, 1979). The literature so far, summarised below, has instead focused on single ESG drivers that could apply to corporations at specific stages of the life cycle and are fragmented.

Resource base

Resources influence the potential investment in ESG activities (Barney, 1991). Certain conditions must be in place for companies to act socially responsibly (Campbell, 2007). Though larger resource bases enhance CSR engagement, institutional and market factors can also drive such behaviours. Firms in the earlier stages of development face limited resources that can be invested in CSR activities. Studies show that CSR investments are costly, therefore, a company's resource base and capabilities acquired with time increase the ability of companies to afford CSR investments (Habib & Hasan, 2019; Russo & Perrini, 2010). When moving along the life cycle stages, CSR activities become affordable; mature firms tend to participate in this type of activities more eagerly (Miller & Friesen, 1984). In addition, companies that face fewer financial constraints and are performing better financially have more resources to spend on ESG-related activities; thus, size and resource availability are likely to be stronger drivers in the later stages of the company's development (Hong et al., 2012).

Organisational factors

Despite the potential challenges in resource availability, World Economic Forum data shows that a vast majority of surveyed start-ups (68 %) integrate ESG in their business strategy from day one. In line with purpose-driven behavior and corresponding business model, an additional organisational factor impacting sustainability adoption is employee attraction and retention. It has been named as one of the core focus areas of large corporates as of 2022 (The Conference Board, 2022), as well as found to be an important driver of ESG engagement for start-up companies (World Economic Forum, 2022).

In addition, the marginal benefit of engaging in CSR activities early on is increasingly crucial for establishing barriers to entry to potential competitors, helping to build a good corporate image and improve corporate reputation (Fombrun & Shanley, 1990), thus concluding that the marginal

benefit of CSR investments is higher for younger firms. As sustainability practices converge within an industry over time (Ioannou & Serafeim, 2019), the impact is potentially diminishing after a longer time of active operations in the market.

Society

Larger firms usually associated with a more pronounced exposure to media and public visibility reach higher levels of CSR involvement (Reverte, 2009), while younger companies can benefit from ESG-compliant activities in attracting customers and boosting visibility (World Economic Forum, 2022). Firms at the maturity stage can be more inclined to engage in CSR initiatives to create reputational capital and unlock new opportunities in order to avoid entering the decline phase (Zhao & Xiao, 2019). Therefore, it is probable that reputational factors can act as an ESG driver at multiple stages of a company's development.

Concerning customer demand, while several studies (i.e. Du et al. (2013)) have shown that customers show a greater willingness to choose products from companies that are CSR-oriented, the majority do not indicate clear distinguishment between the difference in expectations depending on whether the company is a start-up or a large corporation. Thus, it can be assumed that customer expectations apply equally to companies in all life cycle stages.

Finally, research has shown that membership in business associations can also have a significant impact on a company's social performance, as companies are more likely to conform to the standards and practices promoted by their associated industry or sector (Besser & Miller, 2011), which is likely to have a larger impact, particularly on younger companies.

Ownership type

In respect of ownership structures and external financing, younger and smaller companies can gain from CSR activities in terms of higher visibility in the market, allowing them to employ their ESG factors for higher legitimacy and easier access to external financing (Udayasankar, 2008). Businesses in the growth phase see a wider impact from their stakeholders, thus, ensuring healthy ESG performance can help companies in their stakeholder relationships, including their owners and investors (Habib & Hasan, 2019). In addition, venture capitalists and private equity funds provide not only access to financing but also mentorship, strategic guidance, network access, and other non-financial support (Hellmann & Puri, 2002), leading to a consideration that they could well be seen as corporate sustainability drivers.

For maturity-stage companies, a significant, positive connection between sustainability ratings and ownership by institutions and foreign investors is found, while ownership by managers is negatively associated with companies' social performance ratings (Soliman et al., 2013). In addition, financing needs at this stage are supplied either through internal sources, if the company's resources allow it, or acquired externally by private equity funds or banks (Berger & Udell, 1998). The maturity stage is also most associated with companies going public via a stock listing (Pagano et al., 1998). Thus, overall, it could be expected that more formal, institutional ownership patterns

in the later stages of the corporate life cycle will be more relevant than any ownership impacts in the earlier life cycle stages.

Management

The corporate governance facet of ESG decisions is found to be more pronounced in the later phases of the corporate life cycle. Proper CG set-up and professional management team are found to be helpful in terms of solving agency problems (McColgan, 2001). Thus companies having more complex organisation structure and more refined management body can benefit from higher transparency and more transparent governance rules by reducing opportunistic behaviour and conflicts of interest. The same holds for a higher degree of board diversity, given that later life cycle stages are also usually associated with more sophisticated management set-ups.

With respect to the CEO role – it is to be expected that the largest single impact could potentially be achieved in the earlier life cycle stages due to the absence of more formal corporate governance practices and elaborated management teams. As the organisational form and structures of the enterprise in the start-up phase are usually underdeveloped – there is a centralised decision-making process, and the power in most cases is centralised in the hands of the CEO or founders (Hanks, 1990).

Regulation

As discussed in the previous chapters, a particularly important ESG driver is legislation stimulating with reporting requirements not only for the investors (Barnett Waddingham, 2022) but also effectively motivating the corporations (Daugaard & Ding, 2022). As summarised in Section 1.2, the current EU regulatory landscape in terms of disclosure obligations and mechanisms is dominantly relevant for larger (and thus usually more mature) companies; nevertheless, certain aspects are also indirectly relevant for smaller and younger entities.

A particular role can be attributed to certain procurement procedures requiring companies to reveal their ESG data in the competing procedures; thus procurement corresponding to the "green practices" can be seen as a potentially relevant ESG driver for particularly earlier-stage companies that are not directly exposed to the ESG disclosure requirements (Lăzăroiu et al., 2020). Nevertheless, in the start-up stage, companies may not have the resources or capacity to participate in larger green procurement initiatives. Therefore, it will likely be a more important driver in the later development stages.

Concerning sustainability-related certifications, the market is constantly growing and has not yet reached its saturation level, meaning that currently, the wish to obtain industry-relevant sustainability certification can be seen as equally relevant to corporations across all corporate life cycle stages.

Industry

An increase in competition is associated with superior CSR performance (Fernández-Kranz & Santalo, 2010). A similar impact is also documented by a study exploring that higher intensity of rivalry and CSR of competitors increase a firm's CSR performance (Hawn & Kang, 2013). While no direct relationship with life cycle stages has been documented, it could potentially be assumed that industry specifics would overrule the certain life cycle stage; thus belonging to a certain sector would not differ based on the company's development stage but rather from the specific industry. Concerning the pressure by competitors, it is more likely to be an ESG driver in the growth and maturity stage of the corporate life cycle as to maintain their market position; companies may feel pressure from competitors to adopt and implement more sustainable practices to meet changing customer and stakeholder demands.

Based on academic insights, a conceptual model (Fig. 5.1) was developed outlining ESG drivers and indicators for three distinct stages – introductory, growth, and maturity, where the differences can be extinguished the clearest. This approach would also be in line with the proposal by Smith, Mitchell, and Summer (1985), suggesting the distinction between the three following life-cycle phases – inception, high growth, and maturity. The approbation of the model follows in the next chapter.

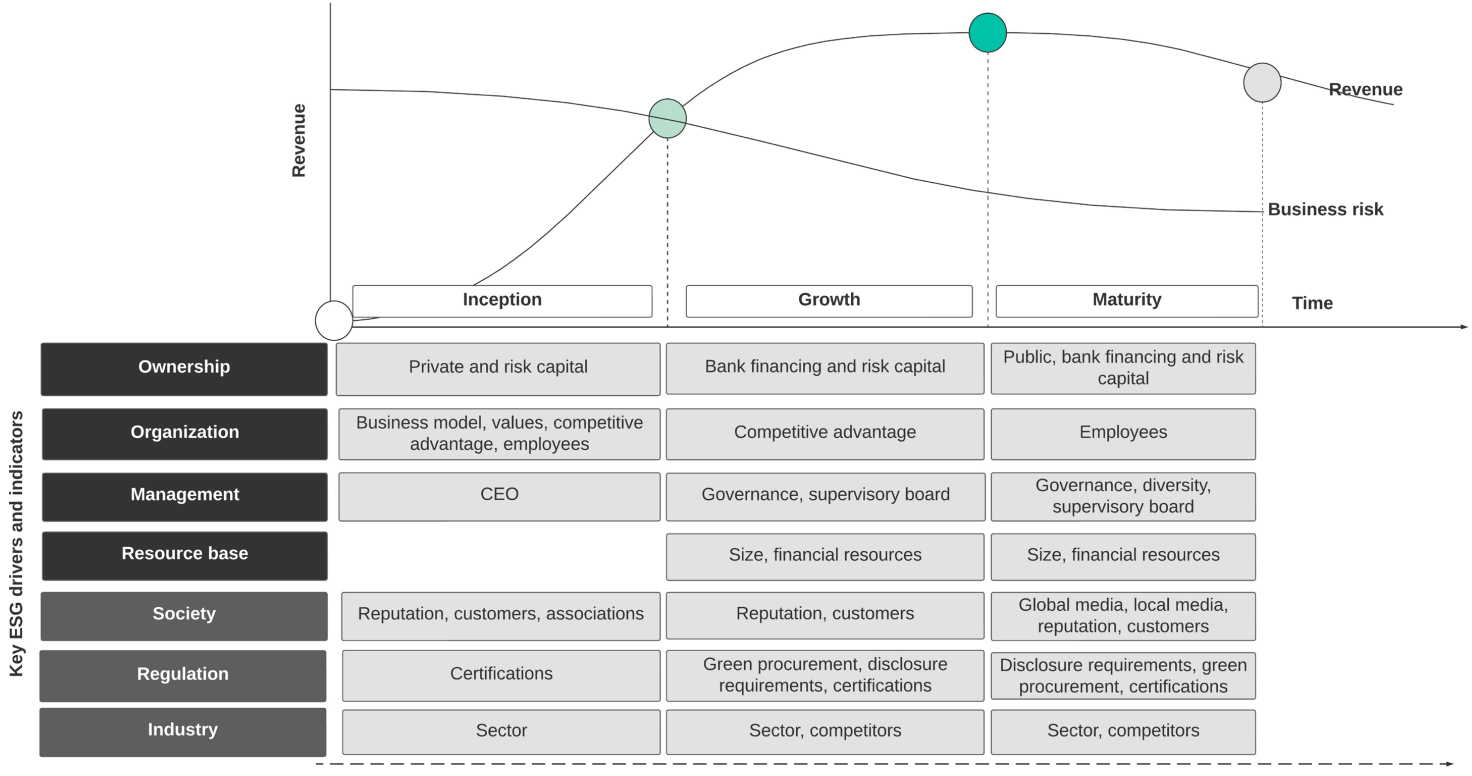

Fig. 5.1. Conceptual model of ESG drivers based on corporate life cycle stages (created by the author based on academic literature.

5.2.2. Methodology and data

To examine the key drivers of ESG implementation at various life cycle stages of a company, the analytical hierarchy process (AHP) developed by Saaty (1980) was applied. It assumes that any complex problem can disintegrate into numerous sub-problems regarding hierarchical levels. By splitting it up into the relevant drivers or attributes, the choice and prioritisation follow from a set of experts (Dyer & Forman, 1992). Comparisons are made using a scale that embodies the strength of the difference, expressing how much more one comparable option dominates another concerning a given attribute. Based on these scales, intangible prioritisation and weights are derived via mathematical computations (Saaty, 2008). The method has been widely adopted in research papers in areas such as education, social and political studies (Vaidya & Kumar, 2006) as well as sustainability area researching ESG drivers for investors (Sood et al., 2022) and sustainable development drivers (Szabo et al., 2021).

A scale of intensity suggested by Saaty ranging from 1 – equal importance to 9 – extreme importance is used to capture the relative importance provided by subject matter experts. Unlike statistical samples, there are no strict requirements with respect to the sample size; rather sometimes, a smaller expert panel size is preferred not to dilute the individual accuracy with the participation of others having less professional judgment (Sagir Ozdemir & Saaty, 2015). Mathematical computations are used to arrive at the assessed weights of the factors (Saaty, 1980). Practically, there are various approaches to how the calculation process can be ensured – ranging from manual calculations using software such as Microsoft Excel to dedicated online tools, for example, AHP-OS, allowing to execute the mathematical computations in an automated way (Goepel, 2018) via an online software.

In terms of data, the AHP questionnaire for the survey of this research was set up in two parts. The first part aims to prioritise seven key factors (ownership, organisational attributes, management, resource base, society, regulation, industry) that summarise the two broader groups of internal and external ESG drivers. The second part is the AHP questionnaire for prioritising the key indicators within each of the seven key factors. The range of indicators within one factor varies from two to five. Following pre-discussions with the potential expert panel members, it was decided that a three-stage model (inception, growth, maturity) of the organisational life cycle proposed by Smith, Mitchell, and Summer (1985) will be used for the elaboration of the relevant drivers because it might be challenging to recognise and point out companies in the decline stage that can be used as reference examples. In addition, while the academic literature and business practitioners tend to differentiate between companies in the introductory phase in separating start-up companies from the general domain of young enterprises, for the sake of further research, the Thesis focuses on the wider scope of the companies in the introductory phase without the dedicated focus on the start-up companies corresponding to specific additional characteristics in terms of high-tech industries or innovations (Ehsan, 2021).

Three different expert panels and corresponding questionnaires were, therefore, created matching the three evaluated corporate life cycle stages – inception (start-up), growth, and maturity. These panels comprised experts in financing and investment as well as industry associations with considerable exposure and expertise in ESG in the Baltic region. The expert panel was split in line with the respondent's expertise and professional experience in one of the particular life cycle stages:

(1) inception stage experts comprised a sample of start-up fund partners, start-up associations, and business angels, as well as ESG experts focusing on sustainability consulting for the start-up companies;
(2) growth stage experts included experts from the largest and most impactful private equity funds operating in the Baltic region, risk and venture capital association leaders, as well as business consulting representatives consulting growth stage companies;
(3) maturity stage respondents encompassed highly ranked commercial bank representatives and ESG officers, asset managers, and ESG experts from business consulting companies.

In total, 25 experts completed the pairwise comparison, with 24 % representing the affinity to the start-up companies, 36 % to the growth companies, and 40 % submitting their answers with respect to the maturity stage companies. The expert sample for the start-up stage was the smallest as the ESG relevance for the start-up companies currently in the examined Baltic region is believed to be the lowest. On the other hand, given the EU-wide regulations as well as requirements by the financiers and pressure from associations, the companies in the maturity stage are indeed faced with the widest exposure to corporate sustainability; thus also, the relevant expert circle was the largest.

The data collection was done over 3 weeks, ending on 5 December 2022. An online survey was set up for experts to be able to evaluate each pair of factors in a systematic way, starting with a short introduction of the background of the study and providing an explanation of the respective corporate life cycle stage. To ensure a common understanding of the drivers and factors, a list of definitions (see Table 5.1) was included before the pairwise comparison, along with two examples. The question for every pair of drivers and factors applied was always the same: Which of these drivers is more important for ESG implementation in Baltic [inception (start-up)/growth/maturity stage] companies, and by how much? The applied AHP questionnaire used a scale from 1 to 9 ranging from 1 "equal importance", 3 "moderate importance", 5 "strong importance", 7 "very strong importance", to 9 "extreme importance". The responses were gathered in an online survey tool and transferred to the AHP-OS. In three cases, the respondents were asked to slightly revise the numerical scaling of the judgment until a value of CR smaller than 0.1 was obtained. One obtained answer was excluded from the final sample due to inconsistencies.

Table 5.1

List of Definitions of the ESG Drivers (created by the author)

Driver	Factor	Definition
Ownership	Private	Owner's request to adhere to certain ESG standards for privately-held companies
	Public	Owner's request to adhere to certain ESG standards (i.e., state-owned companies, listed companies, international groups, etc.)
	Bank financing	Pressure from external financing providers (commercial banks) to implement ESG
	Risk capital	Pressure from PE/VC funds as partial shareholders to implement ESG
Organisation	Business model	Intrinsic wish to adopt ESG due to the business model's sustainability aspects (i.e., circular, impact, etc.)
	Values	Intrinsic wish to adopt ESG due to the purpose and values of the company
	Employees	Request by employees to engage in ESG activities
	Competitive advantage	Intrinsic wish to adopt ESG to achieve competitive advantage vis-à-vis its competitors
Management	CEO	Strong CEO request to implement ESG
	Diversity	A high degree of diversity among the company's executives as a driving force for sustainable behaviour
	Supervisory board	Request from supervisory board to implement ESG
	Governance	Existent corporate governance mechanisms that favor ESG adoption
Resource base	Size	Higher company's visibility in public due to size
	Financial resources	Sufficient financial capabilities to implement ESG-compliant practices
Society	Local media	Pressure from local media
	Global media	Pressure from global media
	Associations	Encouragement from local and international associations
	Customers	Requests from customers to see ESG-compliant behaviour/transparency
	Reputation	Company's wish to improve its reputation by engaging in ESG activities
Regulation	Certifications	Company's wish to obtain any external certifications that require ESG compliance
	Disclosure requirements	Regulatory pressure for mandatory ESG disclosures (currently applicable only to large companies, from 2026 also to SMEs)
	Green procurement	Pressure from procurement processes that require ESG-related disclosures
Industry	Industry sector	Sector representation that is prone to ESG controversies
	Competitor behaviour	Pressure from competitors to match their ESG activities

5.2.3. Results

Based on the methodology for the AHP process (Goepel, 2018), the overall consensus level was calculated in each of the sample groups – ranging from 73.1 % in the inception phase sample to 60 % in growth and 63.1 % in maturity. The AHP software produced results for each of the life cycle stage categories. The overall weights of the ESG factors and indicators in each of the stages are summarised in Table 5.2.

Table 5.2

AHP Weights for Each Stage (created by the author)

	Weight				Total weight		
Driver	**Inception**	**Growth**	**Maturity**	**Factor**	**Inception**	**Growth**	**Maturity**
Ownership	**0.092**	**0.13**	**0.081**	Public	0.011	0.03	0.012
				Private	0.018	0.009	0.005
				Bank financing	0.012	0.056	0.036
				Risk capital	0.048	0.046	0.028
Organisation	**0.103**	**0.087**	**0.058**	Business model	0.037	0.024	0.011
				Values	0.034	0.02	0.014
				Employee demand	0.023	0.013	0.007
				Competitive advantage	0.041	0.037	0.026
Management	**0.262**	**0.125**	**0.176**	CEO	0.173	0.046	0.039
				Diversity	0.023	0.012	0.015
				Supervisory board	0.043	0.048	0.073
				Governance	0.036	0.042	0.051
Resource base	**0.249**	**0.088**	**0.08**	Size	0.075	0.033	0.025
				Financial resources	0.157	0.051	0.055
Society	**0.062**	**0.072**	**0.073**	Local media	0.004	0.009	0.008
				Global media	0.007	0.007	0.003
				Associations	0.014	0.013	0.012
				Customers	0.019	0.017	0.025
				Reputation	0.024	0.028	0.025
Regulation	**0.14**	**0.373**	**0.433**	Certifications	0.047	0.092	0.084
				Green procurements	0.05	0.122	0.086
				Disclosure requirements	0.016	0.123	0.262
Industry	**0.092**	**0.126**	**0.098**	Industry sector	0.024	0.044	0.037
				Competitor behaviour	0.064	0.079	0.061
Total	**1**	**1.001**	**0.999**	-	**1**	**1**	**1**

Inception phase

In the inception stage, the key ESG driving factors, as depicted in Table 5.2. are management (0.262) and resource base (0.249). The management team is critical to the success of the company and should have a clear vision for the company and the ability to execute that vision. The strongest single indicator for driving sustainability in this stage is the CEO (0.173 of the total weight), emphasising the importance of management at this stage. In the early days, the CEO was the most important person in the company. CEO is responsible for setting the vision and strategy for the company, hiring the right people, and providing leadership and direction; thus, if the CEO is set on the correct sustainability agenda, they will also be the key drivers for ESG practice implementation from the early days. Furthermore, the presence of a supervisory board in young companies is also acknowledged as a relatively strong ESG driving factor (0.043 of the total weight) by providing guidance and advice to the founders and management team, helping assess the company's performance, and providing an outside perspective on the company's strategic direction. As the board usually also has the authority to impact decisions on key issues, they can form an impactful driving force towards ESG adoption.

Size and financial resources are also important ESG drivers (0.075 and 0.157 total weights, respectively) for recently established companies. Especially given the general case of limited resources at the early stages of the company's formation, the companies must prioritise their ESG efforts and focus on those areas where they can have the most impact. Regulatory drivers are less pronounced during the inception stage of a company's life cycle compared to other stages, as there are fewer regulatory compliance requirements for smaller companies. However, experts acknowledge that through certifications (0.047 total weight) and green procurement (0.05 total weight) procedures, regulatory pressure can be a significant ESG driver for early-stage companies, even if they are not subject to any disclosure regulations. Organisational indicators such as business model, values, and purpose, as well as a competitive advantage, are found to be the most ESG-relevant, particularly in the inception stage, and become less relevant in the subsequent stages.

From the industry metrics perspective, competitor behaviour is among the highest-ranked factors (0.064 total weight). Ownership factors at this stage play a relatively minor role (0.092 weight for the entire driver). Finally, society's pressure on ESG implementation for early life cycle stage companies is relatively low compared to larger, more established companies.

Growth

In the growth stage, the dominant key driving factor is regulation (0.373), as depicted in Table 5.2, as a share of the growth stage companies certainly falls under the EU disclosure regulations. In its weight, the regulatory driver three times exceeds the following most significant driver – management attributes (0.125). The top 3 indicators are all regulation-driven. Following the disclosure requirements, green procurement is ranked as a close second, meaning that supply chain-driven factors and ESG-aware procurement procedures foster wider ESG adoption among the

growth companies. The effect of such sustainability-conscious procurements is, therefore, twofold – on the one hand, ensuring that the supply chain of the procuring companies adheres to ESG standards and, on the other hand, motivating the potential suppliers to ensure compliance. The lesser role of the regulatory factors plays certifications, found to be the main regulatory driver for start-up companies. While still relevant also at the growth stage, the effect is lower (0.092) compared to disclosure requirements and procurements (0.123)

Two other indicators ranked highly by the experts relate to the industry. Competitors' behaviour is marked as one of the highest impact factors (0.079). If competitors are strong in their ESG communication, lagging can have a negative effect on the customer perception; therefore, peer pressure serves as a valid ESG driving factor. Differently than in other corporate life cycle stages, also the industry sector plays a meaningful role (0.044) in encouraging companies in the more "sensitive" industries to engage in ESG practices.

From the ownership lens, key indicators relevant at this stage are bank financing (0.056) and risk capital funds (0.046), with bank financing being the more important driver due to its ability to enforce stronger ESG requirements. From the management perspective, the supervisory board (0.048) and CG practices (0.042) are gaining relevance as ESG drivers. In particular, the board's role in overseeing management and providing strategic guidance is increasingly recognised as a critical component. Finally, competitive advantage vis-à-vis competitors (0.037) is valid from organisational factors. The remaining factors show relatively low importance.

Maturity

In the maturity stage, the key driving factor for the ESG implementation (depicted in Table 5.2) is regulation – ranked as meaningfully more important (0.433) than the closest followers – management impact (0.176) and industry characteristics (0.098). The extent of this driver's dominance is found to be the highest in the maturity phase, in line with the prediction.

Regarding the indicators encompassed in each of the drivers, the most significant overall impact on maturity-stage companies is driven by disclosure requirements imposed by the CSRD regulation (0.262). Sustainability disclosure requirements have a high overall dominance among all 24 factors. The effect is undoubtedly the largest of all the life cycle stages as particularly these companies already now fall under certain thresholds of ESG disclosure and will face even increased scrutiny after the changes in the legislation are made.

The management driver is the second highest-ranked driver (0.176) after regulation. Notably, the supervisory board's role (0.073) and established CG practices (0.051) are ranked high. As the CEO's impact decreases, particularly the more formal management structures and CG mechanisms are more relevant for mature companies. In the maturity stage, also the company's board's diversity is becoming slightly more noted in comparison to other stages where no impact was found, contrasting the evidence previously described in Section 4.2. The remaining drivers are ranked as having a somewhat lower level of impact on ESG adoption.

When comparing the key drivers across all three explored life cycle stages, certain differences can be noted, ultimately confirming the hypothesis that there are different sets of drivers relevant for ESG adoption motivation by the companies in various stages of their corporate development. There are also several notable differences when assessing the empirical results relative to the conceptual model. From the internal driving factors, the most relevant one at all the stages is the company's management, with the highest impact of the management observed in the start-up stage (0.276), where the CEO plays a crucial role (0.173) in driving the sustainability agenda. In the subsequent stages of development, management remains the most impactful internal driver of ESG implementation, exceeding the power of owners or external financiers such as banks and venture capital funds. This result is in line with the conceptual model.

Ownership factors emerge prominently during the growth stage when external financing is essential. Contrary to the conceptual model, it is found that ownership factors are approximately equally relevant for start-up and maturity stages. In the maturity stage, also the company's board's diversity is becoming more noted (0.015), albeit still low, compared to other stages where it was found not to be significant, contrasting the evidence in the literature (Rao & Tilt, 2016).

Similarly, contrary to the prediction, resource availability is recognised as the second most vital factor driving ESG already in the start-up stage (0.232); however, it gradually loses its relevance in the subsequent stages of corporate development. As companies mature and have the capacity to invest more in corporate sustainability activities (Hong et al., 2012), resource availability as a driver of ESG becomes less important. Likewise, this is the case with organisational attributes. As expected in the conceptual model – while core values and business model specifics are seen as one of the strongest drivers in the inception stage (0.135), they gradually lose relevance in the growth (0.094) and maturity stage (0.058), where the company's business model is established, and the everyday operational complexity exceeds the internal value relevance. Contrary to the conceptual model, while the wish for competitive advantage remains relevant at all stages, employee demand is not ranked among significant drivers in the maturity stage.

Regarding external drivers, regulatory aspects become crucial during growth (0.337) and maturity stages (0.433) as larger companies face mandatory disclosure obligations. Regulatory drivers are less pronounced in inception phase companies (0.113) due to fewer compliance requirements. However, certifications and industry standards can still provide significant regulatory pressure for ESG adoption. Concerning society, expected to be a relevant driver at all stages, it is not being found as a relevant driver for ESG adoption by experts. Finally, industry-related factors are gaining relevance when advancing the stages of the corporate life cycle. Competitors' behaviour is marked as one of the highest impact factors – ranking directly after regulatory components for growth companies (0.079) and is also important at the maturity stage (0.061). As expected by the conceptual model, the impact at all three stages is relatively similar.

Figure 5.2 provides an updated ESG driver model – based on the conceptual model compiled as a result of the review of academic literature and adjusted based on the empirical analysis centring on the specific Baltic market experts. The indicators are sorted based on their

weights to provide a relative grading of the importance of each of the indicators in each of the stages. From the results, it becomes visible that in each of the stages, there are either one or two indicators that have achieved a significant dominance and impact on the ESG – in the inception stage being the CEO's impact and financial resource availability, in growth stage compiling two regulatory aspects of disclosure requirements and green procurement requirements, while for the maturity stage companies significantly relying on the regulatory disclosure requirements. Particularly, the weight comparison of each of the drivers allows for more precise policy recommendations and actions to be derived from the proposed model to achieve a higher ESG adoption.

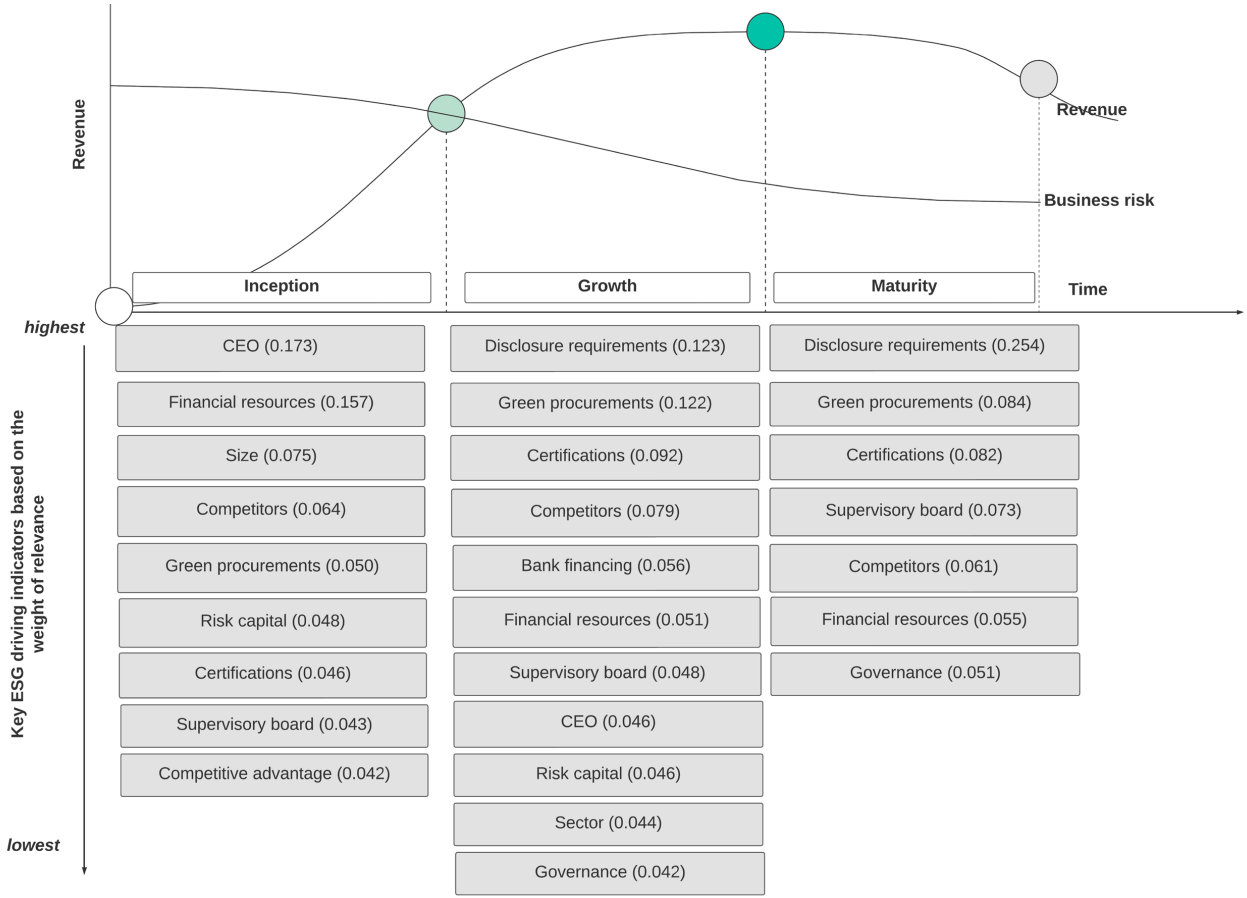

Fig. 5.2. Model of weighted ESG drivers[1] at different corporate lifecycle stages (measured in weight between 0 and 1) (developed by the author).

The model can be used as a basis for understanding the key factors that can aid in implementing ESG practices in corporations based on the specific stages of the corporate life cycle. The study results indicate that factors motivating companies at different stages of the corporate life cycle to implement sustainability measures are not identical. These findings largely align with observations from academic literature and build on the existing body of literature by providing a comprehensive view of ESG drivers at differing corporate life cycle stages.

This chapter delivers insights that help address the final research question: "What are the relevant drivers for ESG implementation in companies across different corporate life cycle stages?" The findings underscore the importance of recognising the relevant ESG drivers for each life cycle stage, leading to optimised outcomes for overall corporate sustainability adoption within the economy. The results and model complement existing academic literature and provide novel insights into the topical area of corporate sustainability in the context of the Baltic region.

Conclusions and Recommendations

1. Ethical and climate concerns, as well as the global trend towards sustainability, progressively move the goal of corporations from short-term profitability to more long-term value creation, as explored in the analysis of the first research question. The importance of ESG considerations is progressively being recognised also by investors, who are increasingly seeking to incorporate ESG factors into their investment analysis and decision-making.
2. Answering the second research question, it has been found that higher corporate sustainability measured by ESG positively impacts shareholder value. Improved financial performance is the primary factor connecting sustainability to shareholder value. Other benefits include better management, reduced risk, improved capital attraction, and stronger relationships with stakeholders, all contributing to higher long-term shareholder value. Nonfinancial factors like reputation and positive stakeholder relationships also enhance intangible asset value.
3. The factors linking higher corporate sustainability with higher shareholder value can be divided into direct outcomes (financial performance and risk reduction) that impact the firm's value directly and indirect outcomes (transparency, stakeholder engagement, management, long-term orientation, employees, reputation, capital management, operating capabilities, and customers) that impact the value via the direct outcomes.
4. A wider adoption of ESG-compliant corporate strategies and operations by corporations in the Baltic countries and the overall CEE region is crucially important as ESG can help to improve economic performance by promoting good corporate governance, encouraging sustainable investment, and mitigating environmental and social risks thus advancing the overall development of the economy.
5. The study has made multiple conclusions about the ESG implementation level in the Baltic region:
    a. Exploration of the average ESG disclosure level across NASDAQ Baltic stock exchange listed companies assessed via qualitative content analysis of the sustainability reports show that the average ESG disclosure score was 47 % in 2022, improving by 7 p.p. from 40 % in the 2020 sample to sample. The highest transparency level is achieved in the governance pillar (60 %), followed by social disclosures at the 48 % level and the environmental pillar at 31 %.
    b. Survey data of 74 medium to large enterprises in Latvia indicate an average degree of ESG factor implementation of 5.45 out of 10. Higher scores were documented for stock-listed, foreign corporation-owned, and state-owned companies, as well as companies with gender-diverse management boards and supervisory boards in place.

c. Content analysis performed on a sample of 122 mission statements of companies operating in the CEE region indicates that sustainability and consumer-related keywords dominate companies' agendas. When examining the changes in the mission statements over the last decade, the results reveal a stronger focus on society and sustainable operations, while direct reference to shareholders and profit has experienced the most dramatic decrease.
d. Survey analysis of Latvian SOEs shows that the self-assessed degree of sustainability implementation is estimated at 6.1 out of 10. Swift changes in regulation pressure companies to adopt ESG without sufficient understanding and processes in place, as well as leading to missing out on important steps such as stakeholder dialogue and materiality assessment.
e. Results of a Baltic-wide financier's survey show that 81 % of the respondents already perform ESG evaluation to at least a limited extent before investing in or lending to the companies. In addition, 73 % of the surveyed companies believed that ESG can be a value driver for their investments. The average weight of the sustainability factor impact on the overall investing decision is found to be 0.39, being somewhat higher for banks (0.46) and asset management companies (0.41).

6. There are several obstacles to ESG implementation, including a lack of standardisation in how ESG data is collected and reported, a lack of awareness and understanding of the concept among senior management and employees, and therefore also lack of commitment towards sustainability implementation and resistance to change. An additional obstacle negatively impacting ESG adoption is the lack of resources, including financial, human, and technical resources, leading also to slow adoption of sustainability disclosures by the companies and investors.
7. The study reveals a significant challenge in the CEE region: limited external ESG rating coverage. Companies from the 11 CEE countries accounted for just 4 % of the European sample's total score count, with little inclusion of Baltic corporations. The lack of available ESG ratings presents a major obstacle, hindering sustainable investments in these regions. An independent t-test analysis confirmed that unranked companies, even when excluding market capitalisation effects, had lower trading volume than their ESG-ranked peers, indicating significant liquidity risks.
8. The analysis of the academic literature, as well as studies performed within the Thesis, suggests as an answer to the third research question that the level of ESG implementation is determined by the interaction between internal and external factors and that there are potential changes over time as companies progress through their lifecycle. Overall, seven drivers (ownership, organisational, resource, management, society, regulation, and industry) consisting of 24 factors influence the development of ESG adoption. It is hypothesised that different drivers are the most impactful ones in different stages of the corporate life cycle.

9. The analytical hierarchy process was used to prioritise and rank ESG drivers by the experts representing the largest Baltic banks, risk capital funds, associations, consultants, and corporate sustainability subject matter experts.
10. The results of the AHP, explored within the review of the fourth research question, confirm observations from the academic literature and the hypothesis that there are different ESG drivers that motivate companies to implement corporate sustainability measures at various corporate life cycle stages:
    a. Inception phase companies can be highly motivated by their management team, especially their CEO. An important pre-requisite is having sufficient financial resources to adopt ESG-related activities.
    b. Growth stage companies are driven by regulatory aspects – disclosure requirements, wish to obtain sustainability-related certifications, and pressure from procurement processes that require ESG-related disclosures. The strongest ownership-related indicator is pressure from banks, while competitor's behaviour can also act as significant peer pressure towards ESG adoption.
    c. The key drivers for the maturity stage are similarly regulatory driven – largely dominated by the disclosure requirement. An important sustainability driver for mature companies can also be their supervisory boards.

Considering the results of the multiple parts of the research, the author suggests the following recommendations.

For the government representatives and public agencies responsible for outlining ESG policies and regulations:

1. Use the model of the ESG drivers across the corporate life cycle as a guideline for ESG promotion initiatives to find the relevant motivators and aspects addressing companies in various development stages.
2. Consider the identified obstacles and barriers to ESG adoption when crafting policies and regulations to support companies in overcoming these challenges.
3. Increase public awareness of the importance of ESG adoption through education and outreach efforts aimed at companies and market participants.

For financiers (investors, banks, and asset managers active in the Baltic region):

1. Utilise the findings of this study to gain a better comprehension of the current position of ESG integration within Baltic businesses.

2. Consider incorporating the findings of this study into your investment strategies and decision-making processes to better align your investments with ESG principles and achieve better financial outcomes.
3. Apply the ESG drivers model across the corporate life cycle to identify the most appropriate motivators and aspects that will resonate with businesses at different stages of development when promoting ESG initiatives.
4. Utilise the significant impact of the relevant players (i.e., risk capital funds in the start-up stage and banks in the growth stage) to foster ESG adoption in the portfolio companies. Engage in constructive dialogue with Baltic businesses to provide guidance and support on ESG integration and to encourage ESG-focused initiatives.

For corporations:

1. Conduct a thorough review of the study results to gain a comprehensive understanding of the financial benefits of ESG adoption, including improved financial performance, risk management, and enhanced reputation.
2. Recognise the importance of ESG disclosure and the potential consequences of limited disclosure, such as lower ESG ratings, increased investor scrutiny, and difficulty in attracting capital.
3. Implement the model of ESG drivers to develop a tailored ESG strategy that considers the specific motivators and aspects that are most relevant to the company's current stage of development.
4. Enhance ESG disclosure and transparency by reporting on ESG performance and initiatives in a consistent and reliable manner to increase stakeholder confidence and attract investment.
5. Engage in ongoing communication with stakeholders, including investors, customers, and employees, to keep them informed of ESG progress and initiatives and to seek feedback on ESG practices.

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