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CSR or ESG as a management tool for a company?

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Abstract

In this study I wish to compare the concepts of CSR and ESG management tools and their relevance and importance in a firms' environmental strategy. CSR has had a relatively strong position in firms, and it has been used as part of the environmental management tool.

The changes in EU legislation have started me to question the current position of CSR. From January 2023 ESG reporting will be mandatory to all company types. Therefore, I think that it is relevant to address the question whether the CSR concept is obsolete and if companies could base their sustainable and environmental effort solely on the ESG. Furthermore, I will discuss if there are any correlations between these two concepts. However, no empirical study was conducted to support my findings.

The comparison was based on a literature review of both concepts which further were summarized in separate SWOT analyses. The thesis is divided in sections. In the first section both CSR and ESG concepts and their limitations are separately presented. Thereafter my research questions are discussed. My thesis is finalized by conclusion.

The main findings in my thesis suggest that there are small differences and some similarities between these two management tools. Furthermore, I would suggest companies regardless of their size or branch to use both tools, since they complement each other. Nevertheless, whichever environmental management tool a company decides to use as a part of its operations it should fulfill the audited criteria and enable company to operate fully in the market.

Language: English
Key Words: ESG, CSR, sustainability, environment

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Tiivistelmä

Opinnäytetyössäni haluan keskustella yritysten yhteiskuntavastuusta (CSR) sekä yrityksen toiminta- ja ympäristö, hyvä hallintotapaa (ESG) työkalujen käytöstä ja niiden tärkeydestä sekä merkitystä yrityksen ympäristöstrategiassa.

Tämän lisäksi, tulen opinnäytetyössäni keskustelemaan onko yrityksien yhteiskuntavastuu vanhentunut ja tulisiko yritysten käyttää muita mahdollisia mallinnuksia ja työkaluja yrityksen kestävään kehitykseen ja ympäristöarvojen kehittämiseen. Työssäni tulen myös keskustelemaan näiden kahden työkalun mahdollisesta yhteneväisyydestä. Tutkimuksessani ei ole käytetty empirestä tutkimusta lopputuleman tueksi.

Opinnäytetyöni on jaettu eri osioihin. Ensimmäisessä osiossa käsitellään yhteiskuntavastuu sekä yrityksen toiminto, ympäristö ja hallintotapa käsitteinä sekä näiden rajoitukset. Tämän jälkeen, tulen käydään läpi tutkimuskysymyksiäni ja esittelen opinnäytetyöni johtopäätöksen.

Lopputulemana löysin molemmissa mallinnuksissa eroavaisuuksia ja yhtäläisyyksiä. Yhdessä käytettynä nämä strategiat tukevat ja täydentävät toisiaan. Parhaan mahdollisen lopputuleman, yritys saavuttaa, mikäli se pystyy hyödyntämään molempia strategioita yhdessä. Yrityksen, tulee kuitenkin valita sellainen ympäristöhallintatyökalu mikä täyttää auditointien vähimmäisvaatimuksen.

Kieli: Englanti
Avainsanat: Yrityksen yhteiskuntavastuu, yrityksen toiminta, ympäristö ja hyvä hallintotapa

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1 Introduction

The main purpose for companies is to maximize their profits to their shareholders. Thus, this must be in line with the operational countries policy and legislation. Moreover, corporate sustainability as a part of corporation's activities has been debated in recent years (Mel, 2003). According to corporate sustainability theory, corporations' growth and profitability are perceived important but so are also the environmental protection, social justice, and economic development (Mel, 2003). This has led companies to develop, monitor, and report their activities in these areas. There are two main management tools for companies to apply: CSR (Corporate Social Responsibility) or ESG (Environment, Social and Governance).

CSR (Corporate Social Responsibility) is a tool for companies to practice public good beyond the law (Yoon, 2018). The other one is ESG (Environmental, Societal, Governance). With this tool, companies' operations are quantitatively evaluated.

CSR (Corporate Social Responsibility) is a sustainable development reporting management tool, which is widely used in numerous companies. It aims to reflect and promote companies' activities, within finance and society in socially acceptable and environmentally respectful way. It can be defined to be the company's backbone and moral compass. (Kuluttajaliitto, n.d.) It covers the following areas: workplace, marketplace, environment, community, ethics, and human rights (Moir, 2001).

Although, the concept of CSR has been in use for many years, it has not evolved to a tool that quantitatively measures the outcome of ones' performance. Whereas CSR policy focuses on the qualitative measurement, the ESG (Environment, Social and Governance) policy concentrates on the quantitative measuring (Martin, 2021).

ESG is built to quantitatively measure companies' performance on the following areas: GHS (greenhouse gases), percentual amount of the minorities in the leading positions and actions to prevent anti-corruption inside the company (Heller, 2021). Unlike CSR, which relies on the qualitative performance and outcome, the ESG measures companies' quantitative performance. The ESG policy was first developed for the banking industry (Martin, 2021). Due to its relatively easy quantitative measurement tools and understanding it has gained wide acceptance and usage value in other industries as well.

Both concepts fall into the larger category of standards for EMS–ISO 14001 (Environmental Management system). This standard was introduced in 1996. The main objective of implementing this standard was not only to raise awareness of environmental activities, but also to facilitate trade and narrow down the trade barriers. The EMS standard offers a framework for companies' management system and performance (Melnyk, 2002). It offers a systematically structured system and database, which combines procedures, processes, monitoring, and reporting of ones' environmental performance to internal and external stakeholders (Melnyk, 2002). In the EMS the documentation of the environmental performance is focussed on design of pollution control, waste minimizing operations and reporting goals to the top management. It is argued by Waxin et al. (2000) that companies implementing ISO 14001 standards can have positive impact on profitability and competitivity. The information given by the EMS tools are primarily found in the company's annual reports (Melnyk, 2002).

1.1 Research question

Since ESG has in the past years gained a lot of room in the reporting of environmental and sustainability matters. I want to ask the following questions: has CSR become obsolete policy? Can companies solely rely on the ESG policy and build its framework of environmental consensus without applying CSR? Additionally, I want to compare the similarities and differences between these two environmental directive policies and to address the question: Will ESG out rule the current CSR policy as we know it?

1.2 Methods and limitations of my work

In this study I will solely focus on the literature concerning both these concepts (ESG and CSR). The thesis has therefore two main limitations. Firstly, no empirical study has been conducted to support the research questions nor the possible findings. Secondly the literature used in in this thesis is vastly economically driven, which puts great deal of the weight on the financial topics.

I will first introduce both concepts separately and shortly review both. Additionally, a SWOT – analysis of both concepts will be presented (Kenton, 2021). With this format I will strive to schematically compare their strengths and weaknesses. The thesis will end with conclusions of the reflections of my findings by using the SWOT analysis.

2 Introduction to CSR (Corporate Social Responsibility)

There are as many interpretations of CSR as there are studies of the concept. For example, UN describes CSR by the definition: "*Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.*" (Organization, 2022).
Jeremy Moon (2014), on the other hand, argues that the CSR at its simplest is *how the companies manage their relationship towards society.* Although authors have different point of views, they all share the same focus in the main key areas: environment, social integrity, and society.

The interest towards CSR began in the early 1950's. At that time, CSR was more commonly known as SR Social Responsibility rather than Corporate Social Responsibility. According to Caroll (1999), this might be due to the undeveloped dominance in the business sector. Furthermore, business and its relationship with the surrounding society was also noticed by Howard R. Bowen (1953). In his publication he argues that companies do interact with the society and have impact on its citizens in numerous ways. Additionally, he also implied that the businessmen's decision-making policy follows the general objectives and values that are set by the society. (Caroll, 1999).

A lot of changes have occurred in fifty years; the small businesses companies have grown into global enterprises, whose annual revenue in some cases exceeds 27 twenty-seven countries GDP (Gross Domestic Product). Additionally, there are privately held foundations which spends instead of 3,9 billion annually on healthcare and development work, which is almost the same amount that WHO (World Health Organization) spends approximately annually (Rashe, 2017). This development has, in return, made these global players as the world's greatest contributors to the largest environmental problems. The actions of global actors have enabled social segregation caused environmental problems (overfishing, deforestation etc.) (Rashe, 2017). To stall down this unpleasant development MNCs (Multinational Corporations) are willing to do a great deal of goodwill in the surrounding societies and follow the UN (United Nations) Sustainable development goals (2015). UN Sustainable development goals (2015) are targeted to end poverty, safeguard gender equality and to ensure the sustainable management of natural resources. Although, the philosophy is noble, a risk lies beneath it. Doing good is not always what is seems to be. For example, the Facebook owner Mark Zuckerberg donated 99% of his Facebook stock for public good. This led into significant tax reductions for the donor (Rashe, 2017).

An interesting and yet a bit frightening turn has been taken globally. Today, corporations are the ones who offers transportation, healthcare, and other services, which previously were offered by the governments. With this shift corporations possess more power than ever in the political field (Rashe, 2017).

CSR in its modern form is perhaps to abstain this development that has occurred. Therefore, it can be perceived as a tool for policymakers to constrain the power of the MSCs practice. On the other hand, it can be considered as a tool for a company to share the public and their shareholders their actions in the business field to a larger extent than described in their financial statement. Though, we tend to picture that CSR concept is only bonded to the big MNCs, but in fact it touches the SMEs (small and medium sized enterprises) as well (Rashe, 2017). The CSR programs set in these SMEs are usually not as well published and in-depth analysed as they are in the MNCs.

2.1 Concept of CSR

To better comprehend CSR, we need to understand the ideology, which the concept encompasses. CSR is based on four key areas: human rights (Universal declaration of Human Rights), labour rights (International Labour Organization’s Declaration of Fundamental Principles and Rights at Work), environmental principles (Rio Declaration on Environment and Development) and anti-corruption (UN convention against Corruption) (Rashe, 2017).

2.1.1 Triple Bottom Line (TBL)

Most of the theoretical frameworks of CSR is built on the Triple Bottom Line (TBL) concept, which originally was presented in 1987. It stresses three features: *Profit, People* and *Planet* that a company is responsible for. According to this theory a company can only be sustainable when all these aspects are well cared for (KsiężaKa, 2017).

Profit making is compulsory for companies to operate and it is one of the most important segments in the TBL. However, Uddin et al. (2008) argued, that CSR has more impact on the direct and indirect economic of the company than it has on the society. According to this view, companies, which heavily rely on the social responsibility matters are generally more profitable. To measure, whether the company is successful, GDP (Gross Domestic Power) and PPP (Purchasing Power Parity) can be measured.

To highlight the importance of profit in CSR, Uddin et al. (2008) described it in a three-dimensional way: The Multiplier Effect, Taxes and Avoiding actions that damage trust. The multiplier effect describes the impact that the business has on its stakeholders. Taxes on the other hand indicate the level that the company contributes to the society in form of taxes. According to Uddin et al. (2008), tax should not be treated as an expense, but rather perceived as a part of the contribution to the society. The last activity in the profit triangle is avoiding actions that damage trust. To ensure its position in the market, companies tend to minimize their risks that could harm their public image (KsiężaKa, 2017).

People are the second pillar in the TBL theory. A company holds not only impact on individuals but also to the communities where it operates in. A community provides the workforce for company and company provide well-being to the community (KsiężaKa, 2017).

Uddin et al. (2008) divides responsibility into three parts: responsibility towards customers, employees, and community.

The first part is a company’s responsibility towards the customers. Customers today have a great deal of power, and knowledge. They can at their best make firms flourish and at the worst drive them into bankruptcy. Therefore, it is very important that company acknowledge and respect this (KsiężaKa, 2017).

The second part is a company's responsibility towards its employees. It emphasizes that company should ensure that their employees are well taken care of, and that the safety aspects are thoroughly followed. Additionally, it is important that company holds impartial treatment, regardless of employees, gender, age, religion, sexuality, handicap, or other differences. The third and final part is the company's responsibility towards the community. Good relationships with the local society can give competitive advantage to firms (KsiężaKa, 2017).

Planet in the TBL is the last but not the least pillar. It is argued by Uddin (2008) that environmental issues are everyone's responsibility, especially firms. An irresponsible use of natural resources, poor waste management and uncontrollable emissions can have negative impact on the planet. Therefore, it is important for a company to control these impacts as well as they can (Gupta, 2011). A company, that manages the environmental issues well, tend to be more profitable. Thus, the environmental impact of CSR is easier to measure than it is on the society. Uddin et al. (2008), explain environmental responsibility with two points: environmental impact and win-win situation (Gupta, 2011).

Environmental impact measures all harmful impact that a company has on its surrounding environment. It can be calculated by using the ecological footprint, which assesses the used natural resources within the year in relations to the available resources. Another tool for measuring the impact is LCA (life cycle assessment). It calculates the environmental performance of a product, from raw material to the finished product and its disposal. Implementing a LCA program in a company, forces the firms' management to change their way of work, think and act (KsiężaKa, 2017).

In the win-win situation, the benefit of implementing an environmental program is used to create cost savings in the company. The environmental program can improve company's business processes and reduce its operational risk. All actions for improving the environmental awareness within the company creates economies of scale and competitive advantage (KsiężaKa, 2017).

Additionally, to the TBL, CSR overlaps on four other concepts that supplement the CSR. These are: corporate sustainability, corporate accountability, corporate citizenship, and business ethics (Rashe, 2017).

2.1.2 Corporate Sustainability

Corporate sustainability is one of the complementing components in the CSR. It is a broad concept, which strives to balances the economic growth, environmental protection, and social equity (Mel, 2022). It is shaped by political, public, and academic research. Corporate sustainability was further sharpened by the conservation movement, social and human rights movements during the past decades (Linnenluecke, 2010). It emphasises the method that a company uses to produce its products and services, whilst having focus on the environmental and sustainable issues as well (FutureLearn, 2021).

Corporate sustainability originates from the UN's Brundtland Commission report (1987). The report focusses on sustainability on several levels. It emphasizes that corporate sustainability should not only be integrated into environmental entity, but it should be part of social equity as well. According to the report, corporates should integrate sustainability into their management systems to secure the needs for the present and the future (Linnenluecke, 2010).

2.1.3 Corporate Accountability

Corporate Accountability is a legal or ethical responsibility to provide justification of the actions that one is held responsible for. Accountability refers to one's duty to report and to explain the actions that are taken (Mel, 2022).

It helps to explain the nature of the relationship between the corporate managers and the remining society. Additionally, it pin-points the importance of the reporting one's environmental and social performance, not only focussing on the financial reporting (Mel, 2022).

It is argued that corporate accountability is not the same as CSR. The focal difference between the CSR and the corporate accountability theory is that the CRS is more voluntary based, whereas corporate accountability rises from external groups and global standards (Chen, 2020). Although they differ to some extent, it can be argued that the external pressure can disable a firm's activities completely.

2.1.4 Corporate Citizenship

Corporate Citizenship measures the responsibilities that the company has towards the society. Good corporate citizenship is required to fulfil the following: Company is expected to be profitable by fulfilling their economic responsibilities, obey the law by following the legal ties, engage in the ethical behaviour, and engage in the philanthropy activities (Caroll 1998).

Corporate Citizenship can be divided into five stages: Elementary, Engaged, Innovative, Integrated and Transformed (Hayes, 2020). Firms operating in elementary stage, have basic or limited corporate awareness. Small companies tend to operate at this level. They follow the health and safety standards and national environmental laws but lack the time and the recourses to develop better community involvement (Hayes, 2020). Companies in the engagement stage, develop internal policies for the employees and the managers, beyond the basic level (Hayes, 2020). In the innovative stage the policies become more comprehensive. Consultation and shareholder meetings are regularly held, to support the corporate citizenship policies (Hayes, 2020). In the final integrated stage, citizenship activities are formally built and embodied into the firm's everyday operations. In this integrated stage, these activities are regularly monitored (Hayes, 2020).

2.1.5 Business Ethics

Business Ethics is a concept on how a company should act when facing an ethical dilemma or a controversial situation while making business. Many companies put a lot of weight on the business ethics. It is done not only from the legal perspective, but it is conducted to improve the public image and to ensure their good customer relationships (White, 2019).

Additionally, business ethics is important since it forces the company to work within a set of boundaries, ensuring that employee rights are met, and consumers are kept content. Well-structured business ethics have advantages for the public, as well as for shareholders and investors. If consumers hold a high appreciation and trust towards the company, they are more likely to prefer it over the competitor. Moreover, properly prepared business ethics help a company to allure more investors to finance their activities (White, 2019). White

To conclude, we can argue that the CSR in the business world is a tool for companies to give an impression to the public that their economic interests are in line with the societal values and interest. Companies can do this in multiple ways, for example by pro-bono work or giving impressive donations to charity (Gerard, 2009). Furthermore, CSR has developed into a visible and assertive discourse which entails governmental regulation, business ethics, society, and employee engagement (Gerard, 2009).

3 Criticism towards CSR

Companies in the developed countries put a great deal of an effort on indicating how well they are committed to important objectives of human rights, green growth, diminishing greenhouse emissions etc (Gerard, 2009). The focus seems to be on all other objectives, than profit making. It sometimes appears that CSR has become a marketing tool for the companies to “greenwash” their actions and the essential ideology of the CSR is forgotten (Gerard, 2009).

Especially this “greenwash” effect is evident in the companies which operate in controversial fields such as petroleum, weapons, and tobacco. Some of these companies have claimed while making profit, they are to avoid exploitation of natural resources, violating human rights, which by the economics is called negative externalities. Negative externality is a price that is borne by the third party as an outcome of the economic transaction. In the transaction the producer and consumer are perceived the first and second party whilst individuals, property owners or organizations are perceived as third party (Gerard, 2009) (EconomicsOnline, 2020). Furthermore, academical journals have devoted more space for CSR and UN run a university network form a responsible management (Gerard, 2009).

This over-emphasized thoughtfulness towards nature, animals, and other stakeholders' conflicts with the economic narrative, where profit-making is key target (Hanlon, 2009). This has elevated a debate what exactly drives companies to focus on business ethics and giving back giving back to the society. To answer this question two different wide-spread theoretical concepts have been studied. One study suggest that the CSR is viewed as a tool for company to balance their key target in business, with an interest of other stakeholders. The other one puts a great deal of critical view into CSR. According to this view the CSR is a tool that is foremost used to make profit and yet at the same time to soften the image of a hard-core business or to defect the attention of "wrongdoings" to elsewhere (Gerard, 2009).

Undoubtedly, adopting a CSR policy, enhances company's ability to win customers over and build better relationship with the governments and policy makers. It is argued that most of the motivation to change one's behavior comes from outside of the firm. It can be either a bad PR (Public Relations) news or a need to align one's values with the preferences set by the new generations.

An example of a bad PR can be when a company is caught by using sweatshops and child labour in its production. There are several business cases where this type of misconducts has occurred. Perhaps, one of the most famous business cases related to bad PR, was the Nike case. Over several years Nike used child labour and sweatshops in its production. When it became public knowledge, it was a tremendous news and a big blow on the corporation's image. This disclosure forced Nike to change the supply chain and revalue their supplier base (Gerard, 2009). Secondly, companies are keen to understand the new and upcoming employee generations, where the swift of the values have dramatically changed. The CSR in this context not only emphasises the importance of the external parties, but also stresses the weight of the internal parties (Gerard, 2009).

4 SWOT analysis of CSR

SWOT (strengths, weaknesses, opportunities, and threats) is an analysis tool that has become a widely used instrument for a company to evaluate and to understand its position in the market (Kenton, 2021). Due to its simplicity and comprehensiveness it can be used in other areas as well. Thefore, I have choosen this tool to present the activities more profoundly. In below SWOT analysis of CSR is presented and a closer analysis of is given.

Table 1 SWOT- Analysis of CSR

Strength	Weakness
- Well established - Large theoretical background - Relatively easy to implement regardless of size and field of operation - Easy to understand by different stakeholder groups - Easy to set goals	- No numerical information - No numerical goal settings and achievements - No statistics
Opportunities	**Threats**
- Improves company's image and gain competitive advantage in market - Motivation for new employee recruitments and - Financial institutions have trust	- ESG - Lack of CSR policy in society - Investing to CSR can financially stress company - Lack of proper connections between stakeholders and companies to illustrate the concept of CSR - Legislation changes

As presented in table 1. implementing the CSR can be relatively easy. There are plenty of literature for a company to use. Additionally, the CSR practices can be implemented regardless of the size and the field of business and is easy to comprehend by different stakeholders (Sharma, 2009). On the other hand, CRS is largely based on a qualitative method and does not require company to measure and monitor environmental issues quantitatively.

Well-established CSR can at its best improve the overall image of the company and present oneself as a reliable partner for the financial institutions. It can also have a positive impact on the recruitment (Sharma, 2009). However, there are issues that must be taken into consideration when a company is implementing the CSR activities. Financial stress can build up in small and medium-sized companies, when employing CSR activities. Additionally, company must carefully follow the changes in the legislation and update the CSR regularly (Sharma, 2009).

5 Environmental, Social and Governance ESG

ESG (Environment, Society and Governance) originates from the financial world and dates to the 1970's, when a small group of investors were interested in the environmental and social practices of the companies in which they were investing (Galbreath, 2012).

5.1 The concept of ESG

It has been argued that the ESG has been amplified by two institutions. Firstly, by United Nations (2006), that invented the concept of the Principles for Responsible Investment (PRI). PRI is still regarded as a main block in the ESG ideology. Secondly, collaboration between the United Nations Environmental Program (UNEP) and the Coalition from Environmentally Responsible Economics (CERES) co-formed a Global Reporting Initial (GRI), which was established in 2001. The main goal was to create a framework where environmental performance reporting and the third generation (G3) of the GRI principles were used. The GRI principles covers six categories: environmental, human rights, labour practices and decent work, society, product responsibility and economic (Galbreath, 2012).

Today ESG is highly connected to the company's economic performance. This is because the firm's response towards environmental issues and labour conditions can have impact on its financial output. Politicians and government officials have for years put pressure on the companies to improve their social and environmental approaches; it has generated improvements in both areas in the business world. Furthermore, it has reinforced the interaction between firms, governments, and other stakeholders (Porter, 2019).

On the other hand, it has been argued in that the development of the ESG is a combination of financial initiatives and market power. Although, company, which follow the ESG framework is largely influenced by different stakeholders and directives set by policymakers. Furthermore, if a company is in the ESG stock index, it can have a positive impact on the sustainability management (Escrig-Olmedo, 2019).

Employing ESG in corporations, accelerated after the global financial crisis in 2008. It was, because the investors raised their concerns over issues in the corporation's accountability, ethical behaviour, and their ability to manage and oversight the risks (Galbreath, 2012). This has not only increased the control in the corporation's accountability, but also amplified the discussion of environmental matters and sustainability (Escrig-Olmedo, 2019).

5.2 ESG a management tool for companies

ESG tool is widely used by management in consulting firms and investors, who wish to better evaluate and understand the company's CSR performance. Fundamentally, it evaluates the business environmental, social, and corporate governance practices and combines them to overall performance practices (Yoon B, 2018). Furthermore, it is used as a part of a decision-making tool for managers and investors (Mel, 2003). It has been shown that companies with a poor rating of the ESG tend to put more effort in improving their environmental performance to achieve a higher ESG score. Moreover, companies confront constant pressure from shareholders and other stakeholder groups to out-perform in the field of social responsibility (Dorfleitner, 2015).

Table 2 ESG common ESG scoring factors are listed.

Environmental	Social	Governance
Energy consumption	Human rights	Quality of management
Pollution	Child and forced labour	Board independence
Climate change (carbon footprint)	Community engagement	Conflicts of interest
Waste production	Health and safety	Executive compensation
Natural resource preservation	Stakeholder relations	Transparency and disclosure

Animal welfare	Employee relations	Shareholder rights

(Michelle, 2021) (Mel, 2003)

5.2.1 Environmental Performance

E, in ESG stands for *environmental performance* (Table 2). It indicates the company's effort to reduce the consumption and emissions (Yoon B., 2018). It does not only focus on the consumption and emissions, but it also covers the company's actions to reduce climate change, energy, and water use (Galbreath, 2012).

Company can improve their environmental performance in many ways. It can be done in more traditional ways, by for example switching the source of energy to a more environmentally friendly sources, or it can be conducted as one of the world's leading suppliers in pulp, Sunazo, a subsidiary to Fibria. The company innovated a model where it integrated farmers to supply eucalyptus wood trough their Forrest- Saving Program. Via this program, biodiversity in the area is protected and WWF recommendations are followed. This also had a positive impact on the income of the farmers as well it generated massive savings to the parent company (Porter, 2019).

5.2.2 Social Performance

S, in ESG stands *social performance* (Table 2). It indicates the company's social responsibility, how relationships and international labour standards, community relations, human rights, health and safety, gender equality and diversity and product safety are considered in the company's strategy (Yoon, 2018) (Galbreath, 2012).

Relationship and international labour standards can be measured quantitatively by inspecting that the wages are in line with the industrial level. Additionally, it is important to investigate that the international labour standards are followed and met. Job satisfaction surveys for employees and supplier surveys to suppliers should be addressed in regular basis to better understand the overall atmosphere within these groups. Furthermore, enlarging the social circle can have financial benefit for the company (Antea, 2021).

Community relations reflects how a firm harms or benefits from the community that it operates in. The assessable features can be the level of local sourcing or level of local employment. However, when assessing the community relations in ESG, a critical viewpoint must be taken since business practice has an impact the local environment (Antea, 2021).

Human rights in a social performance policy are regarded as one of the most important pillars. Though, a company cannot be held responsible for every organisation that it cooperates with, but specific attention to suppliers, which operate in questionable areas should be addressed (Antea, 2021).

Health and safety H&S (Table 2) play a significant role when evaluating the employees' work surroundings. Company can measure its H&S by monitoring and reporting the workplace accidents, compensation claims, health and safety concern and policies around personal protective equipment. (Antea, 2021).

Gender equity and diversity improves the firm's governance. They gender equity and diversity attracts talents and develops human capital. Overall, they enhance the company's competitiveness (Antea, 2021).

To improve the overall score in S – segment, company should do fundamental screening of their supply base, follow the international labour rules, and follow good practice in health and safety matters.

5.2.3 Corporate Governance

G, in ESG stands for the *Corporate Governance* (table 2). It indicates the rights and responsibilities of the company's management (Yoon, 2018). Its main function is to describe how a company strives to eliminate the possible corruption, bribery and how it fosters the independence of the board and protects its shareholders (Galbreath, 2012).

To maximize the utilization of the ESG, it is required to be align with the company's policy and strategy. It needs to cover all the essential issues in the above-mentioned areas. Nike for example was committed to develop a running shoe that produced zero waste. Surprisingly, this shoe was less expensive to manufacture, lighter and more breathable to use. This innovative approach crated multilevel value to different stakeholders (Porter, 2019).

6 Criticism towards ESG

For most companies, harnessing ESG is a key to increase their profitability and their attractiveness among the investors. However, this belief is incorrect and has not been confirmed by any study. Although, there are studies supporting the idea that companies which employ social and environmental matters can have a positive impact on their own business and even in the entire industry (Porter, 2019). Many firms perceive that their efforts to improve sustainability is to improve their general view among the stakeholders (Porter, 2019).

The ESG reporting tool is criticized for its shortcomings. One criticized shortcoming is that it only focusses on the numerical and quantitative side of the company's performance and does not measure the non-financial attributes. Secondly, ESG surveys might be biased. To diminish the impact of self-bias, standardized ESG ratings are provided by distinguished financial institutions such as Bloomberg, Thomson Reuters Eikon, Kinder and Lydenberg and Domini (Yoon, 2018). Furthermore, ESG reporting is not equal when inspecting the size of the companies. It is argued that large corporations receive higher ratings in ESG due to their enhanced reporting activities (Gregor, 2015).

Additionally, stakeholders can miscomprehend firms' performance when valuing the different clusters on the ESG score cards. For example, to evaluate a company's carbon footprint can be trick. One can rely on innovative inventions to cut down the overall carbon emissions: redesigned packing, using technology and preferring low emission logistical solutions, whereas the other procedure? solely relies on one selected system (Porter, 2019).

ESG also emphasises the focus on improving the social performance by enhancing the firms' reputations to "do the right thing". Unfortunately, as companies do not recognise that they can profit from it. In many cases, firms hinder this possible economic benefit from their stakeholders, which increases the ignorance of the true value of the social impact (Porter, 2019).

7 SWOT analysis of ESG

SWOT analysis is a good tool for company to evaluate the possibilities and the opportunities when implementing ESG in its business. In below a SWOT analysis of ESG is conducted and represented, which is followed by a broader analysis of the SWOT of ESG.

Table 3 SWOT analysis ESG

Strength - Develops the reporting methods - Transparency - Easy to understand - Easy to present to management board	Weakness - Motivation for reporting - Reporting bias and data accuracy - Quantify the intangible - Difficulties to understand and miscomprehend
Opportunities - Improving the understanding of the current position - Increasing interest among investors - Increasing transparency - Helping in recruitment - NGO (Non-Governmental Organization)	Threats - Legislation changes - Financial commitment

In the above table (table 3.) SWOT analysis of EGS is presented. When a company has decided to conduct the environmental reporting by using the ESG tool instead of CSR, they are encouraged to weight the following aspects. Applying ESG can have several benefits for the company. It can further develop the company's reporting system, making it more transparent to different internal stakeholders. Additionally, it is a relatively easy and fast way to identify the risks and the possible opportunities (Alva, 2021). However, like any other reporting tool, ESG also has its drawbacks. It may be difficult to motivate employees to report in the correct way. Furthermore, a company that is implementing ESG as a reporting tool needs to be aware of the self-bias behavior and treat the collected data critically. This is because the data used in the reporting comes in many forms: independent, self-reported and audited (McClelland, 2020).

ESG can at its best bring opportunities to company. It can help company to better understand their current position in the market and attract talented workforce (Alva, 2021). Overall, it can have a positive impact on the different stakeholders: consumers, employees, shareholders, and NGO's (Non-Governmental Organization). It has been researched by Nielsen (2018) that 73% of the consumers are willing to cut their consumption habits for environmental reasons and believed that companies could help to improve the environment (Alva, 2020). ESG also has an impact on the employees. It has been reported that a company implementing ESG is perceived to be more attractive workplace, which additionally draws talented and diverse workforce (Alva, 2020). To shareholders, ESG is identified to limit the investment risks and improve long-term returns. Responsibility in investments is no longer treated as a "nice to have" strategy but more like a sound financial strategy. NGOs are also keeping a close eye on the companies that are reporting their ESG performance and plan their strategical movements accordingly (Alva, 2020).

However, when implementing the ESG, one must be aware of the sudden changes in the legislation. In EU, the first sustainable financial plans were to create a common sustainability policy in 2018. One key aspect in implementing the sustainability policy was to increase the environmental, social and governance investing more transparent. This led to invention of the Sustainable Finance Disclosure Regulation (SFDR) (Laidlaw, 2021). With this directive, asset managers and financial institutions are obligated to implement ESG as a part of assessment (KPMG, 2021). From January 2023 EU has mandated that all listed and privately held companies with over 250 employees, which operate in EU region are obligated to perform sustainability reporting (Greenstep, 2021).

8 Discussion

In this section after presenting both concepts. CSR and ESG; they are now further discussed in relation to my research questions:

1. Has CSR become obsolete?

2. Can companies solely rely on the ESG policy and build its framework and environmental consensus without applying CSR?

3. What similarities and differences are there between these two management tools?

8.1 Has CSR become obsolete?

Corporations today have gained more power and revenue than ever before; we cannot stress enough the importance to have tools and means to monitor and restrain their actions in the world.

CSR is a management tool covering firms' important areas in social, environmental, and economic topics. It is a vital part of companies decision-making processes (Chu, 2021). It not only serves the company itself, but it is also regarded as a discussion instrument for company to communicate its decisions regarding environmental issues to the public. However, there is a very thin line regarding, how to use it properly, using it incorrectly can disturb the message, and message can be perceived more as a marketing stunt than an act of good (Gerard, 2009).

CSR programs are important management tools for companies off all types and sizes. They create visibility to their activities and build responsibility by setting up standards of ethical behaviour to the competitors in the operative industry (Piyush, 2021).

To promote the CSR concept within the smallest of companies, International Organization (ISO) released a set of voluntary standards for companies to implement. To even bolster this further, ISO brought in 2010 a new standard for the CSR concept ISO 2600. This standard is for all company and organization types, regardless of their field of activity or location (Piyush, 2021).

The answer to the research question whether CRS has become obsolete can therefore be argued to be no. CSR as a concept has cemented its values and importance throughout the decades into the corporate world. Due to its shortcomings, it should be treated with some level of criticism though. However, it is a valuable tool for companies to communicate transparently their sustainable actions in the global arena.

8.2 Can companies solely rely on the ESG policy to build their framework and environmental consensus without applying CSR?

If the company wants to build its environmental program based on ESG can, it perhaps can be achieved, but it should be noted that by doing so company may want to increase the capital by persuading more shareholders for investing into its activities. A study made by Global Sustainable Investment Review (GSIA, 2018) supports this argument. ESG directed investments have experienced a rapid increase. The global ESG investments in 2018 were over 30 billion dollars, which was over than 68 percent more than in 2014. This extreme acceleration in the figures can be explained by the quantitative method that is used to illuminate a company's impact on the sustainability and environmental issues (Piyush, 2021).

Further, investors, consumers and other stakeholders are now paying more attention to the sustainable labelling of the products and the services. This has elevated companies to not exclusively focus on the quality and cost of the production but to expand their awareness of environment, sustainability, and social aspects as well (Piyush, 2021).

Additionally, focussing on the ESG policy has a positive impact on the financial results, but it is not all about money. The main purpose of ESG is to evaluate if the firm really puts sustainability and environmental practices above the profit making (Piyush, 2021).

However, the ESG is still a financially dominated management tool, and it cannot be ignored. It is argued that to implement ESG, can generate positive impact on five different areas: top-line growth, cost reductions, regulatory and legal interventions, increase productivity, investment, and asset optimization (Witold, 2019).

Top-Line growth can be achieved by focusing on creating good and reliable sustainability practices, including good human resource practices. Well managed practices empower the customer relationship and improves the community and governance relations (Witold, 2019).

Cost reductions can be reached with good planning of environmental awareness regarding energy, water, and waste management (Witold, 2019). Good practice in energy management, reduces overall energy use especially in the use of non-renewable energy as main source. Reductions in water consumption can mainly be achieved by implementing technical solutions and intervening and changing individuals' behaviour. Good waste management should follow the waste hierarchy where the goal is to prevent any waste to be formed (Canfora, 2019).

Regulatory and legal interventions on the other hand can be achieved with good and open communication with regulators which can at its best gain competitive advantage by gaining subsidies from the governments (Witold, 2019).

Moreover, highly motivated, and satisfied employees can strengthen the firm's total productivity level and should therefore not be treated as indifferent (Witold, 2019).

As mentioned earlier, increasing the company's awareness in environmental issues has positive impact on the shareholders and investments.

To answer to the question, whether companies can build their environmental framework based on the ESG management tool, is that they can. The ESG provides all the essential framework tools for helping a firm to build its environmental program. It focusses on the environmental issues of energy, waste, pollution, and climate change. Perhaps it is relatively unusual for companies to primary relay their environmental management tool on ESG, but I strongly believe that its importance will grow in future and its importance will grow. Moreover, it is relatively easy for companies to provide and for the public to comprehend the quantitatively delivered data.

8.3 What similarities and differences are there between these two management tools?

It goes without saying that both policies are highly related to each other. However, they both have their differences and special characteristics. Both management tools aim to adopt a set of policies and practices that have a positive impact on the world. Historically companies have adopted and acknowledged a way to operate in the society, where their performance is not negatively impacted (Piyush, 2021). In the recent years, there has been a change in how these policies are being adopted. The main shift has been from the outward analysis into a more dynamic approach for both external and internal stakeholders (Piyush, 2021).

ESG is used to determine how well companies follow their sustainability and corporate responsibility goals (Chu, 2021). It is also argued that ESG is a method for firms to make sure that their actions have positive impact on the environment, employees, consumers and public (Piyush, 2021). CSR, on the other hand is created to increase the internal and external awareness of the company's environmental and social impact (Chu, 2021).

To illustrate this issue more profoundly, an example can be used. A firm is implementing both policies within its operation and wants to focus on producing more environmentally friendly and sustainable products. When implementing the CSR policy this would be done by internal and external statement, where firm communicates that it is committed to manufacture its products in a sustainable and environmentally friendly way. However, when implementing the ESG policy, a company would measure its goals in a more accurate way. This could be done by setting a goal to increase the use of recycled material in production by 30% within five years for example (Chu, 2021). To simplify the main differences between these we can conclude that ESG focuses on the quantitative, whereas CSR emphasises the qualitive side of environmental policy.

Although these policies differ, they share a great deal of similarities as well. One pivotal subject, which CSR focusses on, is corporate sustainability, which emphasises that the products and services a company produces are manufactured in environmentally and sustainable ways. In ESG this part is stressed in Environmental performance. Although, it does not editorialize how products should be manufactured. It focuses on a firms' goal to reduce their overall emissions and waste in the production. Though, they are not directly compatible, they complement each other. This can be achieved by focussing on manufacturing products in environmentally friendly, which triggers positive impact in the whole manufacturing process by eliminating emissions and waste.

Whilst in CSR, firms not only have a liability towards its shareholder base but has in fact responsibilities towards other stakeholders such as: consumers, communities, and employees. In the ESG, this liability overlaps in both social and governance performance. According to the ESG policy firms bear responsibility of their actions. However, they cannot be held responsible for all the organisations they cooperate with. They are obligated to have responsibility for and visibility to their supplier base and to the origins of the materials.

Corporate citizenship highlights the company's responsibilities towards the society. Ideologically its goal is to "do good" in the society, while ensuring the profitability. Corporate citizenship stresses the idea that all business has ethical and legal responsibilities. Corporate citizenship in CSR can be deployed trough different type of volunteer program, philanthropy activities and so on. Company applying corporate citizenship, have a dual purpose, while making good and interacting with the society they also promote their own company brand. Company applying corporate citizenship successfully sets standards to others of responsibility and ethical issues (Hayes, 2020). In the ESG, corporate citizenship is tangled around the whole concept and corporations are making it as centrepiece of their strategy. I can conclude that corporate citizenship in CSR is carried through the basic levels of corporate citizenship framework, whilst in ESG corporate citizenship is practiced at the highest levels.

Business ethics focuses on policies and practices in a company, observing controversial topics such as bribery, discrimination, social responsibility, and insider trading. The law sets the guidelines of the business ethics (Twin, 2021).

Although business ethics and CRS are closely related, they are not the same. Business ethics focuses on the broad concept of stakeholders, whereas the CSR focusses merely on the organizations obligations towards the society (Farnham, 2021). These obligations are met via sustainability, consumer protection and corporate governance. On the other hand, the CSR is bound to laws and regulations set by the society (Ferrella, 2019).

Business ethics in ESG refer to the degree of risk management, which is related to bribery, corruption, money laundry and defrauding. Additionally, business ethics covers the political involvement and lobbying.

Both policies aim to make decisions based on ethically acknowledged ways. In the ESG ethical issues are more clearly presented, whereas in the CSR, they are more embedded into the decision-making process.

9 Conclusion

Corporations play a significant role in shaping our world. Therefore, it is evident that the costs and benefits of environmental integration into business which yet has been unfilled is large. Applying the ESG and or the CSR management tool, business managers can improve their understanding of the environmental and sustainable issues. We can conclude that without the CSR the ESG would not exist. Perhaps, the greatest difference between these two policies is that the CSR aims to make business accountable whilst the ESG strives to make it measurable.

As presented in tables 1 and 3, we can conclude, that there are differences between these two management tools. Perhaps, one of the biggest differences between these two, is that the CSR is well-established and owns large theoretical background. Additionally, it is relatively easy to implement, regardless of the size or the branch of the company. ESG, on the other hand, has its roots in the investment sector, it possesses short history and has moderately light theoretical framework. The ESG analyses a company's success in environmental matters quantitatively and is directed to the board of management, whereas in the CSR, environmental matters are qualitatively presented and studied. Furthermore, it is aimed to target a broader scale of stakeholders. Implementing either one of them, a company can gain trust among private investors or among the financial institutions. Additionally, it should be noted that a company implementing either ESG, or CSR requires a large financial investment. Furthermore, both management tools need to have flexibility to meet the requirements of the legislation changes.

The rocket like rise of the ESG has led to the demand to rank companies according to their performance. Scores and ratings speak easily to the public, how the company treats it employees, manages its supply chains, responds to the climate change, increases diversity, and cooperates in the society. In many cases the CSR has never been treated more than a storyline in the annual report. In the worst-case CSR has been used as a marketing tool without any real content to back it up. What happens in the future to the CSR and the ESG is yet to be seen, but certainly there is space to developing CSR (Alva, 2020).

However, which one of the environmental management tools, company decides to imply, external audits and ISO certification system (International Organization for Standardization) are still required in the corporate world. The interconnection between certifications, audits and environmental management tools is strong and evident.

Since my thesis is only limited to the theoretical framework, an empirical study would foster the outcome of the research questions. It would be interesting to know how companies operate, which have applied both environmental management tools CSR and ESG. Additionally, a broader literature research with a slightly different viewpoint would be interested to study. Furthermore, discussions on legislation and regulations should be addressed in the future research. Especially, since ESG reporting will be mandatory in EU in January 2023. It not only touches the listed companies, but it also affects the privately held companies as well. Companies, which fulfil at least two of the presented criteria are obligated to perform ESG reporting. The criteria are following; companies with over 250 employees, annual revenue at least 40M€ and balance at least 20M€ (Rauta, 2021). Therefore, it would be interesting to study if these changes in EU level will have an impact on the corporations CSR reporting.

Furthermore, I hope that my thesis could be used as a guide for companies to better understand their environmental policy and broaden their environmental policy beyond the current one. Moreover, companies could use my study as a tool, when evaluating which one of the environmental management tools would best suit for their business environment. Additionally, even though ESG reporting is not yet required from all the companies, parts of it could be useful for companies to apply to.

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