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**IMPLEMENTATION OF ESG PRINCIPLES IN THE FUNCTIONING OF AGRI-FOOD ENTERPRISES
IN THE CONTEXT OF ENSURING CAPITALIZATION STRATEGY
ІМПЛЕМЕНТАЦІЯ ESG-ПРИНЦИПІВ У ФУНКЦІОНУВАННЯ ПІДПРИЄМСТВ
АГРОПРОДОВОЛЬЧОЇ СФЕРИ В КОНТЕКСТІ ЗАБЕЗПЕЧЕННЯ СТРАТЕГІЇ КАПІТАЛІЗАЦІЇ**

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Імплементация ESG-принципов у функціону-
вання підприємств агропродовольчої сфери в
контексті забезпечення стратегії капіталі-
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This research aims to analyze the features of the application of ESG principles in the functioning of agri-food enterprises in the context of ensuring the capitalization strategy and determining further prospects. The research used the following methods: abstract-logical and synthesis, graphing; monographic, and generalization. It was found that the capitalization of business entities is the indicator that shows the efficiency of their use of resources and points to prospects and opportunities for development. Accordingly, an increase in the enterprise's capitalization arouses the interest of investors and, thereby, expands its financial prospects. In addition, the increase in the value of the enterprise will contribute to the growth of equity capital. The strategy of managing the market capitalization of agri-food enterprises needs implementation and ensuring the concept of sustainable development and corporate social responsibility. It has been studied that the increased demand for ESG forces organizations to consider the principles of sustainable development. Attention is focused on the main reasons for the increased demand for ESG for business entities in modern conditions. In particular, the transition to ESG principles and adherence to them in agri-food enterprises ensures the satisfaction of the interests of all stakeholders. The image and business reputation of the enterprise becomes an intangible asset that brings additional benefits, including financial ones. As a tool for increasing the market capitalization of an agri-food enterprise, ESG investments should be aimed at effective reputation management and receiving benefits from creating a high-quality corporate image and business reputation. The agri-food sphere was one of the first to feel the consequences of martial law in Ukraine. The war forced agrarians to become food security guards. It was found that the full-scale war in Ukraine forced domestic business entities to reorient their sustainable development programs. If earlier agricultural formations were invested in projects of reduction of emissions into the environment, waste management, implementation of ESG principles in strategies of managing market capitalization, and sustainable development of the enterprise as a whole, now most of the funds are directed to support the military, various humanitarian programs, as well as programs for finding alternative fuel and energy resources, ways to save electricity and implement alternative sources of energy, etc. In addition, several initiatives are aimed at rebuilding the stricken regions, considering "green" standards. The preservation of the European vector of Ukraine's development and the prospect of a joint open market, which requires investments in developing relevant business processes and standards from domestic business entities in the agri-food sphere, was confirmed. The nature of future investments in the country's reconstruction will consider ESG components, forcing agricultural formations to adjust and adapt products (services) and processes to new requirements.

Keywords: management, enterprise, agri-food sphere, ESG principles, strategy, market capitalization, sustainable development.

Метою цього дослідження є аналіз особливостей імплементації ESG-принципів у функціонування підприємств агропродовольчої сфери в контексті забезпечення стратегії капіталізації та визначення подальших перспектив.

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Під час дослідження були використані такі методи: абстрактно-логічний і синтезу; графування; монографічний, узагальнення. Виявлено, що капіталізація суб'єктів господарювання є тим показником, який свідчить про ефективність використання ними ресурсів і вказує на перспективи та можливості розвитку. Зрозуміло, що стратегія управління ринковою капіталізацією підприємств агропродовольчої сфери потребує впровадження та забезпечення концепції сталого розвитку й корпоративної соціальної відповідальності. Акцентовано увагу на основні причини підвищеного попиту на ESG для суб'єктів господарювання за сучасних умов. Зокрема, імплементація ESG-принципів у підприємствах агропродовольчої сфери забезпечить задоволення інтересів усіх стейкхолдерів. Як інструмент збільшення ринкової капіталізації підприємства агропродовольчої сфери, ESG-інвестиції мають бути спрямовані на ефективне управління репутацією та отримання вигід від формування високоякісного корпоративного іміджу та ділової репутації. Актуалізовано необхідність перегляду вітчизняними суб'єктами господарювання програм сталого розвитку. Якщо раніше агроформування вкладались у проекти з управління відходами, зменшення викидів у довкілля, реалізації ESG-принципів у стратегіях управління ринковою капіталізацією і сталим розвитком підприємства загалом, то зараз більшість коштів йде на військову підтримку, різноманітні гуманітарні програми, програми пошуку альтернативних джерел палива та енергії, способів економії електроенергії, впровадження прогресивних альтернативних джерел енергоносіїв тощо. Підтверджено збереження європейського вектору розвитку України та перспективу спільного відкритого ринку, що вимагають від вітчизняних суб'єктів господарювання агропродовольчої сфери інвестицій у розвиток відповідних бізнес-процесів і стандартів. Характер майбутніх інвестицій у відбудову країни враховуватиме компоненти ESG, змушуючи агроформування пристосовуватися та адаптувати продукцію (послуги) та процеси до нових вимог.

Ключові слова: управління, підприємство, агропродовольча сфера, ESG-принципи, стратегія, ринкова капіталізація, сталий розвиток.

Statement of the problem

Business entities in the agri-food sphere significantly influence the environment and society, among other spheres and branches of the national economy. Accordingly, a transparent and effective corporative management system can manage these impacts. The integrated ESG principles (environmental, social, and governance factors) will help agri-food enterprises set such goals and measure these impacts. ESG factors relate to the three critical criteria in assessing the sustainability of business entities to receive sustainable investments.

Organizations begin to coordinate their basic business strategies and social goals with the Sustainable Development Goals by adopting their own ESG strategies more often. The purpose of business transforms from making a profit to providing value for consumers, clients, employees, suppliers, partners, and communities. Top management and investors see this as a competitive advantage for enterprises. More and more investors are seeking to finance business entities that support and promote sustainability. Top managers of these enterprises are trying to be active and sustainable in conveying their main messages of sustainable development [8; 9].

The capitalization of business entities is the indicator that shows the efficiency of their use of resources and points to prospects and opportunities for development. An increase in the enterprise's capitalization arouses the interest of investors and, thereby, expands its financial prospects. In addition, the increase in the value of the enterprise will contribute to the growth of equity capital. The strategy of managing the market capitalization of agri-food enterprises needs implementation and ensuring the concept of sustainable development and corporate social responsibility.

However, disclosing financial information and ensuring transparency of actions for domestic organizations is still a new and complex process. Documents for regulating this process are being developed, first for financial institutions. The National Bank of Ukraine and the National Securities and Stock Market Commission implement these processes. Since March 2020, the new Corporate Governance Code recommends that Ukrainian enterprises disclose information about ESG project development. At the same time, the National Bank of Ukraine plans to implement environmental, social, and governance factors into the corporative management system of banks from the beginning of 2022 and of non-bank financial institutions from the end of 2024. That is why it is worth considering the integration of ESG principles from the standpoint of new opportunities for agri-food enterprises, including financial, reputational, and management ones.

Considering Ukraine's course towards rapid integration into the EU, Ukrainian business entities, including agri-food formations, already need to start implementing ESG principles in the functioning of enterprises, ensure the realization of ESG policy, and form appropriate reporting.

The problems of formation and implementation of ESG principles of corporate social responsibility of enterprises were studied by both domestic and foreign scientists, in particular, P. Matos [4], G. Sanchez, P. Toma, K. Kopishinska [1], A. Gutorov, O. Lagodienko [2], I. Lebedev [3], Y. Lupenko, N. Sirenko, D. Huang, D. Sharma, and others.

The purpose of the research

The article aims to analyze the features of the implementation of ESG principles in the functioning of agri-food enterprises in the context of ensuring the capitalization strategy and to determine further prospects.

Presentation of the main research material

Sustainable development is a concept of managing human development based on balancing economic growth, social integration, and environmental protection. The concept assumes that maintaining a balance improves the quality of life and minimizes the negative impact on nature. This concept forced the governments of developed countries to think about how this balance could be achieved, as it was obvious that such a goal goes against the established model of capitalism. In 2015, it acquired a new reading and, we can say, a new life: a working group of the UN General Assembly presented 17 interrelated Sustainable Development Goals (SDGs) as «a blueprint for achieving a better and more sustainable future for all». According to the classic definition of corporate social responsibility, given by the European Commission, it is a concept that reflects a company's voluntary decision to participate in improving the life of society and protecting the environment [5]. Corporate social responsibility is a rational response of the enterprise to the conflicting expectations of stakeholders aimed at the sustainable development of the enterprise [3].

The sustainable development of agri-food enterprises provides a progressive positive and qualitative transformation balanced by several criteria (as a rule, attention is focused on the ecological, social, and economic components), aimed at the long-term perspective and associated with the conscious and accented interaction of agricultural formation with the external environment, taking into account the goals of increasing one's competitiveness, adaptability, stability in the conditions of challenges of the external environment. Thus, a clear connection between the global concept of sustainable development and the activity of a specific organization, aimed at making a profit, is fixed.

In recent years, the responsibility and environmental friendliness trend has spread to investments. The acronym ESG can be deciphered as «environment, social, and governance». In a broad sense, this is the sustainable development of commercial activity, which is based on the following principles:

- E – environment – responsible attitude towards the environment;
- S – social – high social responsibility;
- G – governance – high quality of corporate management.

Management models depend on the nature of the enterprise's activity and the sphere branch of the national economy. The uniqueness of the agri-food sphere consists of the need to focus on all constituent ESG principles simultaneously to get the desired results (Fig. 1).

The increased demand for ESG forces organizations to pay attention to the

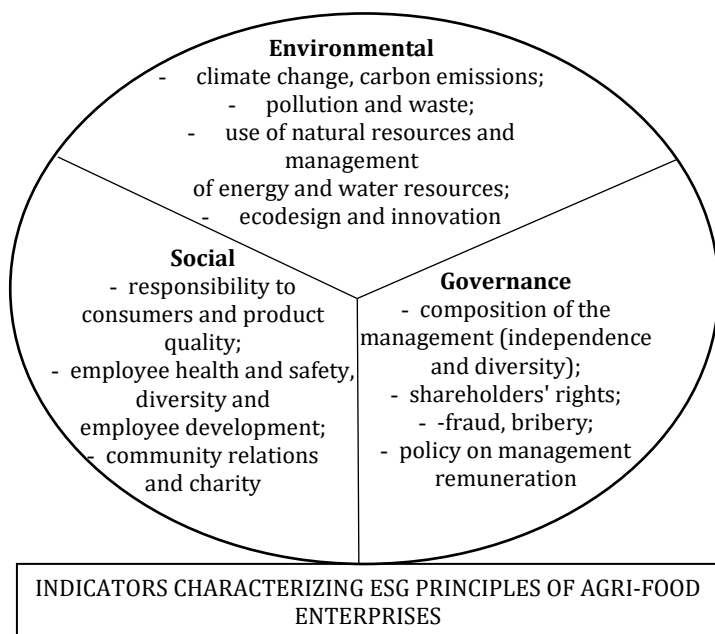


Fig. 1. Indicators characterizing ESG principles of agri-food enterprises [formed by 4; 6]

principles of sustainable development. As O. Lagodienko notes: «ESG criteria are not just "green camouflage", a marketing ploy to attract investors, but a business philosophy, the outlook of management teams, a long-term and valuable platform. Unfortunately, today, most businesses in the country often see the ESG order as a threat, additional costs, and difficulties» [2, p. 41].

Today, people approach the choice of products more consciously. It is essential for consumers that the enterprise cares about the environment and society and provides decent working conditions for its employees. A successful business is about profitability, preserving the environment, and broadcasting the correct values to the public.

According to the adopted E.U.'s Corporate Sustainability Reporting Directive (CSRD), the first reports of businesses must be submitted in 2025, and therefore, companies need to assess today whether they are ready for the European course of development and new changes.

The New CSRD Directive addresses topics that should be covered in previous sustainability reporting. In addition to ESG risk management, the updates will address social challenges: the attitude towards employees, the principles of inclusion, diversity, and equity (IDE), and aspects of value creation along the supply chain. Thus, the New Directive covers more than one hundred specific metrics that

require the active participation of all interested parties in an organization's supply chain. Also, a mandatory requirement for Assurance engagement is introduced for the entire group of companies. The practicing specialist performs this process to obtain proper and sufficient evidence for a conclusion that increases users' trust in measuring the research subject according to the review criteria.

From January 1, 2024, according to the new CSRD Non-Financial Reporting Directive (NFRD), the report must be submitted by large organizations whose securities are valued on a regulated E.U. market, E.U. credit and insurance companies, as well as companies recognized by national authorities, entities of public interest with a staff of 500 or more employees. The report must be submitted by large organizations and groups of E.U. companies in which:

- the total balance exceeds €20 million;
- net turnover exceeds €40.0 million;
- the number of employees exceeds 250 people.

From January 1, 2025, new reports are distributed to organizations that are not currently subject to reporting according to the E.U.'s Non-Financial Reporting Directive (NFRD).

From January 1, 2026, new reports become mandatory for other companies from the E.U. and beyond (except micro-enterprises) whose securities are quoted on regulated E.U. markets.

From January 1, 2028, reporting will be distributed to business entities not in the E.U. However, they have a subsidiary in the E.U. (which is a large E.U. company as defined above or an E.U. company registered on a regulated market and is not a micro-enterprise) or a branch in the E.U. with a net turnover exceeding €40 million in the previous financial year. Also, these organizations must have an annual net turnover on a consolidated or individual level exceeding €150.0 million each year during the last two financial years.

There would be less attention to ESG principles if not related to investment and the best lending opportunities. Organizations that must pay more attention to sustainable development goals face challenges in this area. The ESG rating is formed and published annually by independent research agencies. According to ESG ratings, partners evaluate companies' resistance to various risks: management, environmental, short-term, or long-term, and industry. However, there are many approaches to the formation of ratings. Verification of ESG integration contributes to investment attractiveness and is necessary for storing and including the issuer's securities in the portfolios of responsible investors. Providing information about ESG factors is essential for making business and investment decisions by stakeholders. Information about sustainable development helps to demonstrate the transparency and efficiency of management processes, which creates favorable conditions for attracting long-term resources.

From the beginning, the prominent role of ESG reports is to provide transparent communication with investors and potential creditors. However, over time, the role of reporting has increased because, first, business entities must be responsible to consumers and society. Among the main reasons for the increased demand for ESG for business entities in modern conditions are the following:

- positioning the enterprise among investors and counterparties as an environmentally and socially responsible partner;
- increasing the efficiency of communication with responsible investors and providing access to new investors;
- conducting internal audits of ESG policies and procedures in the organization as part of the assessment, as well as the possibility of obtaining a comparison with competitors;
- possibility of additional financing related to ESG assessment;
- avoidance by investors of companies whose activities are associated with environmental risks and large monetary losses;
- obtaining credit resources (banks take ESG rating into account when issuing loans).

The transition to ESG principles and adherence to them in the agri-food sphere satisfies all stakeholders' interests. The image of the enterprise and business reputation becomes an intangible asset that brings additional benefits, including financial ones.

As a tool for increasing the market capitalization of an agri-food enterprise, ESG investments should be aimed at effective reputation management and receiving benefits from creating a high-quality corporate image and business reputation.

Currently, following the principles of sustainable development is an indicator of the business entity's respect for society. During the previous COVID-19 pandemic, domestic business entities adjusted their development and business strategies, and managers mastered new opportunities and methods of work, adapted to modern conditions, and redirected investments. These years helped many business entities to partially prepare for a new challenge - a full-scale war in Ukraine, despite which

many enterprises and the formation of the agri-food sphere continue to work and support the country's economy.

The full-scale war in Ukraine forced domestic business entities to reorient their sustainable development programs. If earlier agricultural formations were invested in projects of reduction of emissions into the environment, waste management, implementation of ESG principles in strategies of managing market capitalization, and sustainable development of the enterprise as a whole, now most of the funds are directed to support the military, various humanitarian programs, as well as programs for finding alternative fuel and energy resources, ways to save electricity and implement alternative sources of energy, etc. In addition, many initiatives aim to rebuild the stricken regions, considering «green» standards.

The agri-food sphere was one of the first to feel the consequences of martial law in Ukraine. The war forced agrarians to become food security guards. In accordance, Astarta Holding N.V. is a positive example of a business entity in the agri-food sphere that was one of the first to join the global U.N. agreement, began to publicly report on the progress of implementing ESG principles into the business philosophy and to publish sustainable development reports according to GRI standards and ESG criteria.

In addition, Astarta Holding N.V., MHP S.A., and Kernel Holding S.A. publish most ESG criteria in non-financial reports; other enterprises provide only partial information about eco-social initiatives and changes in corporate management.

A study by the International Sustainability Standards Board (ISSB) showed that business entities that implement strategies focused on ESG principles and report according to SASB standards have higher market capitalization. At the same time, there is a direct connection between the size of the enterprise, market value, and reporting by ESG criteria.

In modern conditions, there are about 20 international standards regulating corporate social responsibility and sustainable development of the firm, among which the most famous are AA1000 «Verification of sustainability reports», GRI (Global Reporting Initiative), ISO 14000 series (environmental management standards), SA 8000 «Social Accountability», ISO 26000 «Guidance on Social Responsibility», etc. All international standards require mandatory publication of non-financial reports, open dialogue with stakeholders, and loyalty to ESG principles [1, p. 89].

Accountability of domestic agri-food enterprises and the system of ESG indicators are necessary for adherence to the principles of sustainable development and objective assessment of the achieved results, which will, in the future, impact financial indicators, including the growth of the value of shares and market capitalization. However, it is not easy to regulate ESG reporting at the legislative level because it is necessary to consider global, national, regional, and local needs.

Conclusions and prospects for further research

Achieving ESG goals can bring a sure profit, which an agri-food enterprise can convert into a financial result. The reputation level will increase if the business entity shows increased interest in consumers and the environment. Conversely, the reputation level will decrease if the enterprise is seen in scandals related to the negative impact on the safety of the environment and neglecting the wishes of consumers regarding the safety of food products.

The application of ESG principles allows us to determine the direction of further activity methods of managing an agri-food enterprise and form effective strategies for interaction with stakeholders and managing market capitalization.

The preservation of the European vector and the prospect of a joint open market requiring investments in developing relevant business processes and standards from domestic business entities in the agri-food sphere was confirmed. The nature of future investments in the country's reconstruction will consider ESG components, forcing agricultural formations to adjust and adapt products (services) and processes to new requirements.

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