O. Makarevych, Lecturer
K. Pokhilchenko, Bachelor Student
Zhytomyr Polytechnic State University

COMPONENTS OF THE ESG RISK MANAGEMENT STRATEGY AND THEIR ASSESSMENT IN THE COMPANY

The concept of ESG (Environmental, Social, Governance) is an important area of research in the field of strategic management of enterprises, covering aspects of sustainable development and risk mitigation. The lack of a universally accepted definition of ESG complicates its systematic implementation, which makes it necessary to analyse the components of this concept. Given that ESG factors determine non-financial aspects of a company's operations, their integration into management practices is becoming increasingly important for both investors and regulators. That is why the study of ESG strategy as a basis for managing sustainability risks is important in terms of developing effective management approaches in the business environment [1].

When studying the ESG strategy, it can be generally considered as an approach to enterprise management that takes into account environmental, social and governance factors in order to increase the responsibility of business to society and stakeholders. Each component of this strategy encompasses a set of measures, including:

– *the environmental component* of the ESG strategy involves identifying and managing environmental risks associated with the company's operations. This includes analysing the areas where the company is most vulnerable to environmental threats and developing appropriate measures. In particular, such measures include assessing compliance with regulatory requirements, monitoring operational processes, implementing pollution control systems, minimising waste and introducing sustainable technologies. Integration of ESG ratings into risk management allows companies to identify long-term risks and improve sustainable development practices, which contributes to their competitiveness and environmental sustainability;

– *the social component* of the ESG strategy covers the management of social risks that may affect the company's reputation, customer loyalty and financial performance. One of the key aspects is compliance with ethical standards in relations with employees, customers and suppliers. Businesses should implement mechanisms to monitor suppliers' compliance with labour laws, security and personal data protection standards. Internal auditors, who check compliance with social standards, as well as educational programmes for employees on ethical behaviour, play an important role here. Active work with stakeholders helps to avoid reputational threats and increase the level of trust in the company;

– *the governance component* of the ESG strategy pertains to corporate governance, ethical conduct, and compliance with legal requirements. Ineffective governance and a lack of transparency can lead to significant financial and reputational losses, as was the case with Volkswagen in 2015. Companies should create risk mitigation strategies that encompass corporate responsibility assessment, anti-corruption measures, enhancements to internal audit mechanisms, and transparency in executive compensation. The use of analytical technologies and artificial intelligence can help predict potential risks and respond quickly to changes in the regulatory environment.

In order to assess the effectiveness of measures taken as part of the ESG risk management strategy, it is important to develop clear key performance indicators and analyse them regularly[2]. First of all, it should be noted that ESG risk assessment is a key element of an effective risk management strategy.ESG ratings provide an overall assessment of potential threats related to sustainability issues and are based on an analysis of financial performance, environmental risks, as well as social and governance aspects.

Independent rating agencies use various methodologies to objectively assess a company's ESG performance. Environmental risks are evaluated through CO2 emissions, water use, land changes, and biodiversity impact, alongside safety standards for production and waste management. Social indicators include employee training, labour law compliance, and financial transparency, while governance assessment covers corporate transparency, board independence, and anti-corruption measures.

For Ukraine, which is going through a war, this issue is certainly relevant, although it has its own specific challenges. The war has changed the rules of investment, significantly increasing the risks that determine investment attractiveness. However, this process opens up new opportunities to incorporate the principles of sustainable development into the country's economic strategy.

The war has put unprecedented pressure on human resources, in particular through loss of life, migration and reduction in the number of employees. Therefore, the restoration of human capital through the development, public discussion and implementation of educational programmes in educational institutions, the development of professional skills and the retention of qualified personnel in the national labour market will be an important component of the sustainable development strategy. This includes social initiatives that support vulnerable groups and help reintegrate them into the workforce.

In times of war, transparency and timely reporting on the financial and social impact of business activities are crucial. The government has introduced several initiatives to promote these standards, including the Resolution of the Cabinet of Ministers of Ukraine «On Provision of Financial State Support» dated 24.01.2020 No. 28 (the «Resolution») [3]. The Resolution allows state loans that meet the World Bank's environmental and social standards. In addition, the National Bank of Ukraine's policy on sustainable financing until 2025 and other programmes encourage the financial sector to actively implement ESG and non-financial reporting principles. It is expected that after the end of the war, the focus on reporting and disclosure in the context of sustainable development will increase, in particular particularly through the implementation of the Sustainable Finance Disclosure Regulation.

An important component of the country's economic strategy is to contribute to the development of alternative energy, renewable energy sources and the introduction of green technologies, which will become a key element of investment policy. These initiatives can be supported through international finance mechanisms such as the €50 billion Ukraine Facility. At the same time, the war requires new approaches to supply chain management, in particular with an emphasis on resilience, reliability, and risk mitigation.This includes ensuring the stability of the supply of goods and services even in the face of global crises and conflicts. Companies that start using ESG principles in their supply chains will be better able to adapt to change and become more competitive.

Investments in traditional environmental industries can be an important part of a country's post-war recovery. It is also worth introducing incremental greening measuresinto all business processes, reducing the negative impact on the environment. Cooperation with the European market and Ukraine's movement towards European integration can significantly change the approach to sustainable development in Ukraine. Compliance with ESG will be beneficial for the country if key players focus on energy saving, optimisation of production and management processes, investments in human capital, increased transparency and anti-corruption measures. Supporting local initiatives can be an important element of achieving competitive advantage. Rather than being limited to meeting donor requirements, ESG strategies can provide long-term benefits that not only enhance reputation but also contribute to sustainable development and economic progress.

To conclude, the ESG risk management strategy is an integral part of the modern approach to sustainable development of companies, which takes into account the environmental, social and governance aspects of their activities. Implementing effective mechanisms for assessing ESG risks helps to minimise potential threats, improve reputation and attract responsible investors. In wartime, social sustainability, governance transparency, and environmental safety become especially relevant, requiring adaptation to new challenges.Integrating ESG principles into business helps reduce risks, ensuring long-term competitiveness and economic sustainability.

REFERENCES

1. On Management and Supervision of ESG Risk for Credit Institutions and Investment Firms [Електронний ресурс]. EBA Report. 2021. – Режим доступу : https://eba.europa.eu/sites/default/files/document_library/Publications/Reports/2021/1015656/EBA%20Report%20on%20ESG%20risks%20management%20and%20supervision.pdf. – Дата звернення: 28.03.2025.

2. Managing ESG Risk: Strategies for Global Organisations [Електронний ресурс]. – Режим доступу : https://www.iriscarbon.com/managing-esg-risk-strategies-for-global-organisations. – Дата звернення: 28.03.2025.

3. Про надання фінансової державної підтримки[Електронний ресурс]: Постанова КМУ від 24.01.2020 р. № 28. – Режим доступу : https://zakon.rada.gov.ua/laws/show/28-2020-%D0%BF#Text. – Дата звернення: 28.03.2025.