



EFFECTIVENESS OF IMPLEMENTING ESG PRINCIPLES IN JOINT-STOCK COMPANIES

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Abstract:

This article analyzes the effectiveness of applying ESG (Environmental, Social, Corporate Governance) principles in joint-stock companies. The impact of ESG principles on the sustainable development of joint-stock companies, increasing social responsibility and ensuring environmental safety is studied

Keywords: ESG principles, corporate governance, sustainable development, environmental responsibility, competitiveness, corporate governance principles

Introduction

ESG is an acronym for "Environmental, Social, and Governance" and refers to the management of risks and opportunities related to environmental, social issues, and governance by companies. It is one of the important factors in assessing a company's sustainability for investors, employees, customers, and other stakeholders.

The three main parts of ESG are:

Environmental:

The company's impact on the environment, including issues such as climate change, waste, energy consumption, and use of natural resources.

Social:

Includes the company's relationships with employees, the community, and other stakeholders, including employment, working conditions, social issues, and human rights.

Governance:

The corporate governance of a company includes issues such as governance transparency, ethics, the work carried out by the company, shareholder rights, and management performance evaluation.



Applying ESG principles provides a number of benefits for companies, including:

Reduced risk:

Applying ESG principles reduces a company's risks, including by complying with environmental regulations, building positive relationships on social issues, and ensuring transparency in governance.

Good relationships:

Applying ESG principles creates good relationships between the company and its stakeholders, which increases the company's reputation.

Valuable company:

Applying ESG principles increases the company's sustainability, which increases the company's value.

Applying ESG principles helps companies implement transparent and sustainable business practices.

Companies have realized that adhering to ESG criteria helps reduce environmental risks and that demonstrating a company's social responsibility has a positive impact on customer loyalty and strengthens its position in the market. By adhering to ESG principles, a company will gain a number of advantages, including: higher attractiveness to investors and financial institutions, higher financial performance, and better labor productivity. In the long term, ESG compliance will enhance business reputation and create a positive image of the company, reduce environmental tax costs, and improve the technology and innovation of the business.

According to one consulting firm, 63 percent of 2,000 academic studies conducted since the 1970s found a positive correlation between ESG and the value of a public company.

A 2018 study found that nearly 97 percent of investors worldwide engage in informal ESG assessments or systematic and methodical analysis of non-financial information about companies they are potential investment targets. The number of such investors has increased by 19 percent in one year, as only 78 percent of investors had such an interest in 2017. Notably, at the end of 2017, only 3 percent of investors said they were not interested in ESG factors at all.

ESG investing is not yet a guaranteed return and is focused on a long-term strategy. Although the investment process is built around ESG, funds are actively



gaining popularity, and more than \$20 trillion is managed using ESG principles worldwide, which is a quarter of all assets under management.

Specialized ESG funds buy "green" securities, which allows them to issue green bonds, which are used to finance projects with environmental goals. Green finance involves allocating funds to a project on the condition that it improves the environment, mitigates climate change, and uses resources more efficiently. In 2020, the global financial market was flooded with approximately \$380 billion in new green, social and sustainable development bonds, ultimately exceeding \$1 trillion in total. At the same time, it can be said that currently there are no absolutely mandatory requirements for ESG compliance, and companies voluntarily comply with ESG criteria. Compliance with ESG principles is assessed through disclosure of relevant information in a company's non-financial reporting or through an assessment of ESG performance by a rating agency. Rating agencies have developed their own methodologies designed to assess the extent to which a company's key business decision-making process is oriented towards sustainable development in the environmental, social and economic spheres.

However, an ESG rating is not a credit rating (which determines the level of creditworthiness), but is primarily aimed at determining a company's commitment to conducting business responsibly. Each rating agency uses its own set of indicators to measure the level of compliance with ESG requirements, and there is currently no common set of industry-wide standards.

However, ESG ratings are often based on:

Data collection (financial statements, CSR reports, interviews, questionnaires)

Information assessment

Output data verification.

A company's participation in ESG ratings can increase the interest of investors and clients who are focused on working with companies whose activities comply with the principles of sustainable development.

Today, more than a hundred ESG agencies operate in the world. At the same time, experts say that in most cases, ESG agencies determine ratings without a request from the company, based solely on publicly available information. The rating includes ESG ratings of Russian companies, subjects of the Russian Federation and funds.



Disclosure and regulation

The pace of ESG implementation around the world is varying across regions. The European Union is leading the way in adopting regulations and supporting investment that facilitate the transition to a low-carbon economy and channel private capital into sustainable projects to achieve the Sustainable Development Goals by 2030.

The regulatory environment in the US is still immature, and financial regulators recommend that investors, whose funds are managed by institutional investors, prioritize economic performance when investing to best serve the interests of their clients. This is primarily the case for pension funds.

In 2020, the UK Financial Reporting Council published an updated version of the governance code for institutional investors and their advisers, which clearly states that the purpose of governance should be to “create long-term value for clients and beneficiaries, and to deliver sustainable benefits for the economy, the environment and society.” The main challenges hindering the development of ESG investing in the economy are the lack of a clear system for regulating the disclosure of non-financial information by companies and the low level of market awareness of environmental, social and governance factors in the investment decision-making system.

According to one survey, data limitations and the perception that investors do not use the information provided are the main problems with ESG disclosure.

Uzmetkombinat JSC and the implementation of ESG principles

Today, the importance of corporate governance, social responsibility and environmental sustainability is increasing in the world. In this context, Uzmetkombinat JSC, one of the leading industrial companies in Uzbekistan, has made the implementation of ESG (Environmental, Social, Governance) principles one of its strategic goals.

Efforts within the framework of ESG principles

Environmental sustainability: Uzmetkombinat JSC is implementing a number of measures to improve the environmental environment. The company is introducing new technologies for efficient use of resources and waste reduction. It is also working with the European Bank for Reconstruction and Development (EBRD) to monitor and reduce greenhouse gas emissions.

Social responsibility: The company has made the safety and health of its employees a priority. They contribute to improving the quality of life of local



communities by supporting social programs. They also implement extensive programs to improve the skills of employees and create new jobs.

Corporate Governance: Uzmetkombinat JSC pays great attention to modernizing its management system and ensuring transparency. In this regard, the company has taken steps to obtain an international ESG rating. It also works to prepare financial statements in accordance with international standards and conduct open dialogue with stakeholders.

Cooperation and international experience

In the process of implementing ESG principles, Uzmetkombinat JSC cooperates with international organizations. In particular, with the support of the EBRD, a resource efficiency audit was conducted and sustainable development strategies were developed.

By implementing ESG principles, Uzmetkombinat JSC is not only modernizing its internal operations, but also making a significant contribution to the country's economy and environmental sustainability. The company's approach in this regard can serve as an example for other local enterprises.

Conclusion

The introduction of ESG principles in joint-stock companies in Uzbekistan is an important step towards the sustainable development of the country. The application of these principles will not only reduce the negative impact on the environment, but also allow for the implementation of social initiatives that are beneficial to society. Transparency and accountability in corporate governance will increase the credibility of joint-stock companies in the international arena.

This approach not only brings economic benefits, but also serves to strengthen Uzbekistan's image as a sustainable and responsible country on a global scale. Implementing ESG principles not only improves the internal operations of companies, but also ensures more sustainable and healthy living conditions for future generations.

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