“Corporate Governance, CSR, ESG, and Sustainability: Realigning the Principle-Agent Equilibrium in Multinational Enterprises “MNEs”

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ABSTRACT

The thesis provides a thorough examination of the interconnections between Environmental, Social, Governance (ESG) principles, Corporate Social Responsibility (CSR), legal frameworks, global value chains, and international agreements that influence the conduct of multinational enterprises (MNEs) in the current business environment. The first step involves the establishment of a fundamental transition towards sustainability and the adoption of responsible business practices. This transition is characterized by the integration of environmental, social, and governance (ESG) considerations and the recognition of the strategic significance of corporate social responsibility (CSR). The thesis subsequently explores the intricate correlation between environmental, social, and governance (ESG) issues and Global Value Chains (GVCs), providing a comprehensive understanding of the escalating significance of ESG concerns in the financial domain and their consequential effects on global investment dynamics. The accompanying discussion explores the domain of international agreements and legal factors that regulate multinational enterprises (MNEs), emphasizing the importance of the OECD Guidelines for Multinational Enterprises in fostering responsible corporate behavior. The ongoing investigation delves into the realms of legislative frameworks, corporate governance, and ESG reporting requirements, highlighting the need of thorough research, industry-specific reporting standards, and voluntary frameworks in bolstering openness and accountability. The present thesis examines the European Commission's ESG Rating Articles in relation to the Sustainable Development Goals (SDGs) established by the United Nations. This analysis uncovers a significant alignment between regulatory efforts and the overarching aims of global sustainability. In summary, this thesis offers a thorough comprehension of the dynamic environment in which multinational enterprises (MNEs) function, emphasizing the imperative of ethical behavior, sustainability, and openness in order to effectively traverse the many intricacies of the contemporary global economy.

Keywords: ESG, CSR, MNEs, GVCs, OECD, SDGs
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<td>Corporate Social Responsibility</td>
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Global Impact Investing Network  GIIN
Carbon Disclosure Project  CDP
Return of Asset  ROA
Sustainability Accounting Standards Board  SASB
Integrated reporting in corporate communications  IIRC
International Labor Organization  ILO
Regional Trade Agreement  RTA
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Chapter 1: Introduction and Background

1.1. An Overview Growing Importance of ESG Factors in Corporate Decision-making

Corporate sustainability and *Environmental, Social, Governance* (ESG) factors evaluation have become a global issue of great importance. The integration of ESG factors into corporate decision-making processes has gained significant interest worldwide. This interest stems from the recognition that corporations have substantial impacts on the environment and society, and their actions can have both positive and negative effects. To address these concerns, many countries have implemented regulations and guidelines that require companies to consider ESG factors in their decision-making. For example, the EU introduced the *Sustainable Finance Disclosure Regulation* (SFDR) in 2021, which mandates asset managers and financial institutions to disclose information on the sustainability and impact of their investments. The global integration of ESG factors into corporate decision-making is being driven by a combination of mandatory legal rules and principles, as well as the voluntary adoption of industry standards. Additionally, the demand from investors for more sustainable and socially responsible investment opportunities puts pressure on institutional investors to actively participate in shaping corporate issuers' policies. ESG, which stands for Environmental, Social, and Governance, encompasses crucial aspects of business activities. Investors utilize ESG criteria, alongside traditional financial analysis, to assess the risk associated with a company. Nowadays, investors are increasingly aligning their investments with ESG values and favoring companies that actively address ESG risks through high standards.

Environmental factors consider a company's impact on the environment, while social factors examine how the company manages relationships with stakeholders and prioritizes their rights and well-being. Governance factors assess how effectively the company is managed.

In summary:

(E) - How does the company treat the environment?
(S) - How does the company treat its employees, customers, and the community?
(G) - How is the company governed?

The way a company handles ESG matters can directly influence its share price due to factors like reputation and litigation risks. The ESG framework allows investors to evaluate a company's performance on these metrics compared to its peers. Furthermore, sustainable investment principles make use of ESG data to help investors determine if a company is a worthwhile investment.
Foreign Direct Investment (FDI), refers to a kind of international investment whereby an investor residing in one country acquires a long-term stake in and exerts a substantial level of control over a business located in another economy (Duce & España, 2003). In light of the foregoing, a promising interrelation between (FDI), and Corporate Social Responsibility (CSR) – together with its evolution into ESG-based corporate regulations – is also emerging. This interesting relationship has been investigated in recent years by some economists, including, for example, Mei Liu & Andrew Marshall, who generally were able to identify a positive relation between CSR performance and the propensity to engage in FDI. The positive relation between CSR and ESG performance and FDI propensity appears to be stronger in connection with firms without prior international experience in FDI, CSR and the ESG-based approaches seem linked with stronger stakeholders’ engagements, which – in turn – could reduce information asymmetry and enable Multinational Enterprises (MNEs) to establish trustworthy and longer-lasting relations with their respective key external stakeholders in any potential host country (M. Liu et al., 2021, page 4).

From an additional point of view, it is necessary also to mention that ESG factors are increasingly being used by investors and other stakeholders to evaluate companies’ long-term sustainability and management risk practices. In terms of governance and its global aspect also, it is important to understand how national and international standards can support or hinder corporate sustainability efforts, based on an ESG factors approach. These standards and regulations have been introduced, recently, by some governments and/or some international organizations to address environmental and social risks, as well as to promote governance methods to implement (or to improve) responsible business practices. However, the effectiveness of these regulations and
standards often depends on the willingness of companies to comply with them and the ability of regulators to enforce them, that is to say, in many legal systems – including the “USA” – the ESG factors compliance is still left, for the most part, to voluntary adhesion to standards and principles created by non-governmental organizations, such as, e.g., Coalition for Environmentally Responsible Economies (“CERES”). The “global environmental governance system” consists of the organization of documents, decisions of institutions, and decisions. Policies encompass the rules, financial allocations, provision of mechanisms, rituals, norms, and the implementation of document provisions intended to achieve the protection of the global environment and foster sustainable development (Koh Kheng-Lian, 2008). However, has the aforementioned system been successful in achieving these goals? If not, what are the main reasons for the lack of success? And what steps should be taken? Can these shortcomings be rectified?

1.2. CSR
According to the 2001 “Green Paper of the European Commission”, which are produced by the European Commission with the purpose of initiating and fostering discussions on certain themes at the European Union (EU) level (Weatherill, 2001). Corporate Social Responsibility (CSR) refers to the voluntary inclusion of social and environmental considerations in a company's business activities and interactions with stakeholders. In 2011, the European Commission expanded the definition to include "corporate responsibility for their societal impact." The importance of this perspective has significantly increased in recent years, given the growing emphasis on ESG requirements. Many companies have taken the initiative to create non-financial statements or produce Sustainability Reports to showcase their commitment to these principles (Contrafatto et al., 2020).

Companies are not just economic entities; they also have a social responsibility to fulfill.

The entity in question has the responsibility to effectively manage and mitigate the environmental, economic, and social consequences that arise from its operations. According to Article 41 of the Italian Constitution private economic enterprise is free; It may not be carried out against the common good or in such a manner that could damage safety, liberty and human dignity. The law shall provide for appropriate programmers and controls so that public and private-sector economic activity may be oriented and coordinated for social purposes this strengthens this principle by affirming that private economic activities must never undermine social welfare, jeopardize security, or violate human dignity( Unit of the Chamber of Deputies, 2022). The purpose of the regulation is to ensure that both public and private economic activities align with broader societal goals.

Additionally, it's important to note that sustainable business practices not only contribute positively to public welfare but also play a significant role in fostering strong economic development. Incorporating social factors into the decision-making processes of enterprises naturally leads to Economic growth. This growth encompasses the integration of Environmental, Social, and Governance (ESG) aspects, with a strong emphasis on promoting sustainability, transparency, traceability, collaboration, and inclusiveness. Companies committed to these values consider the 17 Sustainable Development Goals (SDGs) outlined in the 2030 Agenda, especially Goal 9 and Goal 12, as crucial guiding principles.
1.2.1 The Critical Role of Corporate Social Responsibility for Multinational Enterprises

In general, it can be said that CSR refers to the responsibility that companies have towards the social, environmental, and economic effects of their activities. They are committed to complying with ethical principles, workers' rights, protecting the environment, and promoting society. CSR can generally include actions such as supporting charities, reducing environmental impacts, providing fair working conditions, and sustainable development.

On the other hand, MNEs are companies that carry out their activities in several countries and take advantage of international resources and markets. MNEs often have far-reaching impacts on local and global communities and can play an important role in social and economic development and progress as well.

Considering that MNEs have international influence, CSR is very important for them. CSR involvement is influenced by diverse Primary and Secondary stakeholder demand, because, they have a responsibility to audit and interact with local and global communities. By adopting effective CSR approaches, MNEs can improve the public perception of their activities and also achieve long-term value and profitability of their business.

Multinational enterprises (MNEs) play a pivotal role in both local and global communities given their international reach. Consequently, it is crucial for MNEs to prioritize corporate social responsibility (CSR) to effectively address the social, environmental, and economic impacts resulting from their activities. Through the implementation of successful CSR approaches, MNEs can not only shape public perception positively but also secure long-term value and profitability for their businesses (Park et al., 2014).

![Primary and secondary Stakeholders](image.png)
1.2.2. Examining Coordination and Cooperation in Global Environmental Governance

It seems that policy-making organizations, the establishment of institutions, financing, establishing rules and regulations, and finally implementing the established policies through the implementation of relevant rules require cooperation and coordination between international actors, including governments, civil society, and the private sector (Birnie et al., 2009). Therefore, it is imperative to examine the coordination and cooperation among international actors in the context of global environmental governance to determine their effectiveness in achieving its objectives, specifically environmental protection and the advancement of sustainable development. In the realm of division, one might argue that global environmental governance has three essential elements; First and foremost, there is a procedural component that seeks to coordinate and formalize a variety of meetings and decisions by generating papers that use suitable language. The aforementioned documents undergo a sequential process of approvals, beginning with legislative endorsement within the individual nations and culminating with the assimilation of the document into the legal framework of the signatory countries, therefore establishing its obligatory nature. In addition, the framework encompasses several elements, including soft law instruments like as agreements and declarations, as well as hard law instruments such as conventions, treaties, and protocols. Furthermore, it comprises the institutions that play a crucial role in the interpretation and management of these governance tools. These establishments may include both official and informal structures and are present in both the private and public domains. Moreover, the third element concerns the implementation and discharge of the environmental obligations assumed by governments and individuals in the global society, as stipulated in international accords delineated in the previous element (Elizabeth R. DeSombre, 2017). To assure adherence, it is crucial to proficiently include the provisions delineated in the existing literature by using the preexisting frameworks.

The United Nations Millennium Goals, subsequently replaced by the (SDGs), aimed to prioritize the enhancement of the well-being of the most impoverished individuals worldwide. These objectives included several aims, including the provision of improved healthcare, education, and access to clean water. These advancements have significant impact on the current discourse surrounding (ESG). The significance of the (ESG) framework is increasingly recognized by enterprises, however, still it may be argued that the expedited legislation implemented by some governments is having adverse effects rather than yielding positive outcomes.

1.2.3 Examining the Impact of NGOs on Corporate Social Responsibility and Sustainable

it is beneficial to embrace a contemplative methodology, in which corporations, especially multinational enterprises (MNEs), take into account the intended results and strive to formulate a strategic plan that is in line with these objectives, rather than only depending on ideological viewpoints for direction. Given the finite nature of Earth's resources, it is crucial to develop a framework that functions within the planet’s limitations, avoiding overconsumption, and while promoting economic advancement. In order to promote the integration of emerging markets and the least-developed countries into Global Value Chains (GVC), it is crucial to construct resilient supply networks that can effectively support the continuous flow of goods. Furthermore, there exists a strong aspiration for a global economy that is characterized by greater equity. Therefore, it is imperative to provide a feasible solution that effectively addresses these divergent interests.
Non-Governmental Organizations (NGOs) are addended to the categories which in the broader development community see FDI as more than a pursuit of corporate capitalism, but as a potential catalyst for economic growth and job creation. In fact, achieving the SDGs depends on their presence. There are many inquiries pertaining to this matter. For instance, has corporate social responsibility (CSR) been influenced by non-profit organizations in developed countries that are engaged in attracting foreign investment? What are the reasons for their greater impact on developed countries versus underdeveloped countries? How have these groups been structured to influence CSR in multinational corporations? Furthermore, how does the framework for corporate social responsibility in these two groups of countries influence the development of non-mandatory and mandatory required Environmental, Social, and Governance (ESG) laws at the global level?

The answer is that, (NGOs) structure and operation have altered how CSR is perceived in the nations in which they operate. Corporations reap strategic benefits from CSR activities that require collaboration with NGOs. These strategic collaborations to sustainably operate corporations in developed nations are often initiated by NGOs to comply with government regulations, market drivers, and company policies. For example, in developed countries such as the “United States” and the “United Kingdom”, government initiatives and market drivers (e.g., consumers, shareholders, and key business partners) influence the sustainable operation of corporations. These factors also directly or indirectly revolve around policies concerning the financial sustainability of NGOs in these nations. Developed nations emphasize having a well-designed and well-articulated system that reduces disruptions of the distribution of funds and influences the CSR of corporations that support the financial needs of national and international NGOs (Ahmed et al., 2021).

Foreign direct investment (FDI) continues to bring inherent risks and several practical challenges when seen through the prism of corporate analysis, especially for small and medium-sized businesses (SMEs), which make up a sizeable portion of a country's domestic economy. Governmental bodies have actively worked to promote foreign direct investment FDI and simplify business operations within their various jurisdictions during the last 20 years. However, the impression has changed considerably as a result of the emergence of populist and nationalist political parties in several countries. The advent of several pieces of legislation addressing supply chain, social, and environmental concerns has had a significant impact, adding new risks for businesses. Multinational corporations MNEs will have far more severe issues in this area. The complex interactions between the host countries, the host nation's domestic economies, and the complex network of international supply chains may be to blame for this phenomenon.

1.2 The Global Sustainability Governance and Supply Chain Laws
The recent adoption of national and ongoing discussions over European supply chain laws are intended to promote, corporate accountability for social and environmental transgressions. The businesses in question have a broad range of responsibilities that include not only their own subsidiaries, but also extend to encompass their immediate suppliers, as well as the suppliers of those suppliers. The current situation calls for a collective effort that involves the collaboration of governments, international organizations, civil society, and the private sector, particularly the management of firms and their groups, such as the “US Business Roundtable.” The aim is to design and implement generally applicable legislation, principles, and standards, together with monitoring methods and reporting structures. Nevertheless, it is essential for these undertakings to take into account the disparities in legal frameworks, political and cultural environments, and the
heterogeneous economic motivations that influence governments, MNEs, and stakeholders across various nations.

Given the aforementioned background, a growing aspect of "global sustainability governance" and corporate sustainability that holds increasing importance is the global value chain GVC. The elucidation of the idea of "value chain" is imperative in light of the growing trend of global outsourcing among corporations. The ramifications of their activities on the environment and society beyond their local operations and include their supply networks. This gives rise to substantial issues not just about the "social responsibility" of businesses but also pertaining to their legal requirements.

For instance, one may consider the potential influence of legal frameworks such as the United Nations Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the International Labor Organization conventions as legal frameworks for corporate sustainability within the context of global value chains. The elucidation of the legal framework pertaining to supply networks involves a broad spectrum of rules and regulations that regulate many facets of supply chain management and several elements of the legal system are comprised.

For example; the, has been implemented as a mandatory regulation for companies employing over 3,000 individuals since January 1, 2023. Furthermore, starting January 1, 2024, this act will be expanded to encompass all companies with a workforce exceeding 1,000 employees. The primary objective of this legislation is to compel companies to actively recognize and mitigate potential instances of human rights violations occurring within their supply chains. The German Supply Chain Act mandates that firms identify and mitigate the potential hazards associated with forced labor, child labor, and discrimination (Beckers et al., 2021).

1.3 Navigating Global ESG Legislation and Considerations:
A variety of comparable Environmental, Social, and Governance ESG legislations exist worldwide. For example, the “UK Modern Slavery Act” (2015), California Transparency in Supply Chains Act (2010), and Australian “Modern Slavery Act” (2018) all aim to address slavery or human trafficking within supply chains (Hesst, 2021). The “Dodd-Frank Act” (2010) in the United States requires companies to provide transparency regarding their use of conflict minerals. Similarly, the French “Duty of Care Law” (2017) obligates companies to practice due diligence in addressing human rights violations and environmental hazards in their supply chains. The European Union has implemented the Corporate Sustainability Reporting Directive (CSRD) and is also discussing the implementation of a comprehensive supply chain legislation referred to as the Corporate Sustainability Due Diligence Directive (CSDDD). There are differing opinions regarding the impact of ESG regulations. Some argue that compliance measures, audits, and inspections impose increased financial obligations on businesses. Possible outcomes that have been considered include the potential deceleration of technological advancement, deindustrialization in certain countries, challenges in attracting foreign direct investment FDI for least-developed nations, penalization of small and medium enterprises SMEs, and limited accessibility of products and services for certain populations.
Compliance with ESG regulations is widely seen as expensive. “Stringent” monitoring and auditing processes, including oversight of sub-suppliers in distant nations, require significant resources. This can create challenges for companies competing with counterparts not subject to similar regulatory systems. In some cases, companies may consider relocating or shifting production offshore to avoid these additional obligations in certain regions. According to the same line of reasoning, the implementation of ESG legislation poses a potential concern for the least-developed nations in terms of their ability to effectively attract substantial levels of foreign direct investment (FDI).

From the standpoint of an investor, FDI entails a certain level of risk. Given the present economic environment characterized by uncertainty and protectionist policies, investing in these nations is becoming less appealing (even, before considering the additional factor of increased labor prices in these regions). Due to the implementation of ESG regulations, corporations face significant legal and reputational concerns, leading them to proactively mitigate their exposure to such risks. By using the same logic, it may be claimed that the adoption of environmental, social, and governance ESG legislation could endanger the capacity of the least developed countries to successfully entice significant amounts of foreign direct investment (FDI).

Foreign direct investment (FDI) projects or suppliers from countries like Norway and Switzerland are often perceived as less risky compared to countries like Nigeria and Sudan. One reason for this is the complex supply networks in the latter countries, which can make it challenging for unfamiliar investors to monitor participants and address supervisory concerns. Unfortunately, Zimbabwe, despite having the largest lithium deposit in Africa, ranks 157th out of 180 nations on the Corruption Perception Index. Therefore, it is recommended to remove Zimbabwe from the list of viable places for FDI. This would result in a decline in FDI inflows, further impacting the already modest global contribution of the least developed countries (LDCs) to about 2%. There are currently 46 economies designated by the United Nations as the least developed countries (LDCs), (United Nations, 2021).

Additionally, the implementation of environmental, social, and governance ESG standards may lead to a concentration of FDI in countries perceived as stable and developed. While there is no globally accepted definition or standardized approach for ESG, efforts are underway to harmonize various standards. Private fund advisers may employ ESG investing in different ways, with the ESG-integration model being the most contemporary approach. This model involves considering environmental, social, and governance factors throughout the investment process to manage risks.

Environmental aspects include climate change, greenhouse gas emissions, renewable energy usage, and sustainability efforts. Social factors include employee well-being, inclusivity, ethical supply chains, privacy and data security, and human rights protection. Corporate governance covers issues such as board independence and diversity, executive compensation, shareholder entitlements, ethical practices, and role segregation between CEO and chairman. In this context, our main focus is on the integration approach to ESG implementation by financial advisors.

However, advisors may also engage in ESG-focused approaches related to energy transition and natural resource preservation, requiring a thorough assessment of comprehensive policies and processes.
Sustainability requires an integrated approach to the social and environmental dimensions of value chain activities, the GVC framework, which incorporates perspectives from firms and policymakers in a multi-stakeholder approach. It provides building blocks for a progressive environmental agenda, including a multi-actor perspective to define sustainability and analyze national, industrial, and geopolitical factors (De Marchi & Gereffi, 2023).

Based on Gereffi and De Marchi's premise, it is possible to analyze the development of national policies within the GVC context. However, this analysis requires extensive knowledge of the social and environmental background. In this context, it is clear that foreign direct investment FDI carries inherent risks and practical obstacles. Governments have actively worked to promote FDI and simplify business operations, but the rise of populist and nationalist political parties in some countries has significantly changed the landscape. Understanding the complexity of the FDI process is crucial within the multi-actor perspective used to define sustainability and analyze national policies in the GVC context.

We will conduct a comparative analysis of the legal frameworks to understand the variations and similarities in ESG-related laws and regulations. This thesis will provide insights into the challenges and opportunities faced by Multinational Enterprises MNEs in complying with these diverse legal requirements.
CHAPTER 2: Unveiling the Foundations, Exploring the Theoretical Framework in Research

2.1. ESG Landscape: Exploring the Taxonomy of Eco-Sustainable Activities

According to Covip's explanation of ESG factors refer to a set of relevant factors that contribute to the long-term sustainability of various economic activities. The first factor revolves around the environment, including climate change, CO2 emissions, air and water pollution, waste, and deforestation. The second factor encompasses social aspects such as human rights, working standards, and community relations. The third factor relates to corporate governance practices, including manager remuneration policies, composition of the board of directors, and compliance with laws and professional ethics (COVIP, 2020).

ESG practices in companies can be examined through three main theoretical perspectives: risk, information, and strategy. From a risk perspective, ESG practices help manage internal operational risks and external factors like governance issues and potential litigation. Investors value strong ESG practices because they provide protection against unforeseen negative events, particularly during crises like COVID-19. This emphasizes the need for updated legal perspectives and legislation. In the high-risk financial sector, ESG practices, backed by various executive boards, significantly reduce corporate risks. During times of economic uncertainty, managers tend to prioritize ESG practices due to their risk mitigation benefits.

From an information standpoint, businesses that adopt ESG practices demonstrate their internal progress and reduce information asymmetry in the market. This transparency benefits both internal stakeholders, such as employees who experience greater satisfaction and loyalty, and external stakeholders, including investors and consumers. Companies with strong ESG disclosures generally face lower regulatory costs and are less prone to managerial opportunism. They also enjoy reduced financing costs, particularly in debt and equity, allowing for greater financial flexibility. However, the impact of ESG practices on smaller firms is debated, as while some SMEs experience decreased financing costs, others, especially in Italy, may face increased costs due to the loss of competitive information advantages. Nonetheless, overall, reduced financial burdens enable companies to invest more in research and development, ultimately enhancing their value and performance (Wang et al., 2023).

The figure provided offers a detailed depiction of the relationship between ESG (Environmental, Social, and Governance) practices and the creation of corporate value. This representation provides a clearer insight, primarily focusing on the direct mechanisms through which ESG contributes to value, rather than providing a broad systematic analysis.
One of the titles that addresses these issues is the "Report on the Financial Risks of Climate Change" by the Task Force on Climate-related Financial Disclosures (TCFD). TCFD is a body that promotes and monitors the stability of the global financial system – with the task of developing a series of recommendations on reporting of the risks linked to climate change (Froum per la finanza sostenibile, 2021).

This report focuses on the environmental aspect of ESG and highlights the financial risks associated with climate change. It also provides guidelines for companies on how to disclose these risks effectively (Wang et al., 2023).

The (“CFA”) Institute, a well-known global association of investment professionals, consistently emphasizes the close relationship between ESG practices and comprehensive risk management in their work titled "Sustainable Value: The Business Case for ESG." They point out that implementing sound environmental practices can lead to improved operational efficiency, cost savings, and the prevention of potential accidents. It also helps companies safeguard against external regulatory fines and reputational damage (Orsagh. et al., 2018)

On the social front, treating employees favorably can enhance retention rates, reducing costs and risks associated with workforce turnover. Additionally, having a positive societal impact can mitigate the risk of public boycotts or social campaigns.

Furthermore, strong governance mechanisms internally can prevent financial irregularities and protect against concentrations of power that may harm shareholders. Externally, they can decrease the likelihood of shareholder litigations or activist interventions, and even result in better financial terms from stakeholders who perceive lower risk. In essence, the CFA Institute highlights that ESG practices go beyond ethical conduct and are crucial for optimizing financial health through effective risk management.

According to the Covip's explanation on ESG, The European Union (EU) has been at the forefront of integrating ESG (Environmental, Social, and Governance) considerations into its financial

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1 Institute of Qualified Financial Analysts.
legislation to promote sustainable growth and investment across the region. In three general sections we can categories these legislations:

2.1.1. Taxonomy of Eco-Sustainable Activities

*Regulation (EU) 2020/852* of the European Parliament and of the Council of 18 June 2020 establishes a taxonomy, or classification system, to determine which economic activities can be considered environmentally sustainable. This regulation is crucial in ensuring that only investments that meet clear and standardized criteria can be labeled as "sustainable." Its primary goal is to prevent "greenwashing," which refers to misleadingly promoting products as more environmentally friendly than they actually are. Additionally, it aims to promote consistency across the EU in terms of what can be marketed as a green or sustainable investment (European Parliament, 2020). The term "greenwashing" is commonly understood as a form of superficial environmentalism or ecological facade. It refers to the communication tactics employed by specific companies, organizations, or political institutions to create a misleadingly positive public perception of their environmental impact. The primary objective of greenwashing is to divert public attention away from the detrimental effects of their activities or products on the environment (Roszkowska-menkes, 2020).

The EU Taxonomy outlines six environmental objectives: climate change mitigation and adaptation, sustainable water and marine resource use, transition to a circular economy, pollution prevention, and biodiversity and ecosystem protection. *Technical Screening Criteria* (TSC) specify how activities can significantly contribute to these objectives, while the 'Do No Significant Harm' (DNSH) principle ensures that an activity aiming for one objective doesn't harm others. The Taxonomy introduces two categories: enabling activities, which support other activities in achieving the objectives without leading to conflicts, and "transitional activities," which align with the “Paris Agreement” and have stringent criteria to avoid carbon lock-ins. The Paris Agreement is an international treaty concluded between the member states of the United Nations Framework Convention on Climate Change, regarding the reduction of greenhouse gas emissions and finance, reached on 12 December 2015 and covering the period from 2020 (United Nations Climate change, 2020).

The Taxonomy also revises reporting requirements under the *Non-Financial Reporting Directive* (NFRD) and the *Sustainable Finance Disclosure Regulation* (SFDR), emphasizing transparency and expanding disclosure obligations for certain entities (Doyle, 2021).

2.1.2. Sustainability Disclosures in the Financial Services Sector

*Regulation (EU) 2019/2088* of the European Parliament and of the Council of 27 November 2019 focuses on sustainability-related disclosures in the financial services sector. The primary aim of this regulation is to enhance transparency and provide clarity to end-investors regarding the sustainability of their investments. It mandates financial market participants and financial advisors to disclose how they integrate environmental, social, and governance (ESG) factors into their risk processes. The goal is to ensure transparency regarding the extent to which investment decisions align with ESG considerations or targets (European Commission, 2020).
The Regulation (EU) 2019/2088, also known as SFDR Level I, has been implemented since March 2021. It aims to standardize ESG disclosures for financial offerings, enabling investors to make well-informed decisions based on reliable ESG data. Financial products are categorized as "light green" under Article 8, "dark green" under Article 9, and other products under Article 6. The foundational rules of Level I were further detailed by the Commission Delegated Regulation (EU) 2022/128.

![Image of EU Taxonomy, Disclosure and ESG](image)

**2.1.3. Eco-sustainable benchmark indices**

*Regulation (EU) 2019/2089* of the European Parliament and of the Council of 27 November 2019 introduces amendments to Regulation (EU) 2016/1011. The amendments aim to establish EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks, and sustainability-related disclosures for benchmarks. These new benchmark categories are designed to align with the transition to a carbon-neutral economy. It provides standardized benchmarks for funds that aim to support the goals of the Paris Agreement and contribute to climate transition efforts (Doyle, 2021).

The *Benchmark Regulation* (BMR) also includes disclosure requirements for all EU benchmarks with environmental, social, and governance (ESG) factors. Benchmark administrators are mandated to disclose if ESG factors are integrated into their benchmark design, along with the methods employed. For EU Climate Benchmarks, administrators are required to regularly report...
on the benchmarks' performance against a set of sustainability-related Key Performance Indicators (KPIs) in their benchmark statements.

The “EU's sustainable finance agenda” revolves around three essential pillars: (1) the EU Taxonomy, (2) disclosure frameworks for non-financial and financial entities, and (3) a range of investment tools that promote sustainable solutions. With over five years since the inception of the first action plan for sustainable finance, these three pillars have firmly established a regulatory landscape that actively supports sustainable investments (European Commission, 2023a).

2.2. Enhancing ESG Ratings and Building a Strong European Market

Environmental, social, and governance (ESG) investing has become increasingly important in mainstream finance, fostering a thriving ecosystem of ESG investments and ratings. These ratings provide valuable insights into a company's ESG factors and their societal impact. They significantly impact capital markets and boost investor confidence in sustainable products by offering essential information for financial strategies. However, the current ESG rating market faces challenges regarding transparency and clarity, which hinder informed decision-making about ESG-related risks.

To address these concerns, the European Commission, as part of its renewed sustainable finance strategy from 2021, aims to enhance the reliability and comparability of ESG ratings. The goal is not to standardize ESG rating methodologies, but rather to improve transparency, allowing rating providers to have autonomy in choosing their methodologies. This initiative aligns with the broader objectives of the “European Single Market” – that free movement of goods, services, capital and persons is assured, the “European Green Deal”, and the United Nations Sustainable Development Goals, which aim to achieve a fully sustainable economic transition and strengthen investment credibility. 27 Member States of European Country have committed to making the EU the first climate-neutral continent by 2050. To achieve this goal, they have committed to reducing emissions by at least 55% by 2030 compared to 1990 (European Commission, 2022b).

In addition to promoting sustainable finance, the European Union (EU) has a vision of enabling its citizens to study, live, shop, work, and retire in any EU country while enjoying products from across Europe. This is achieved through the free movement of goods, services, capital, and persons within the EU's single internal market, by eliminating technical, legal, and bureaucratic barriers, the EU empowers citizens to engage in trade and business freely.

Furthermore, the EU is actively working on building a capital markets union, which aims to facilitate easier access to funding for small businesses and make Europe an attractive destination for investment. Additionally, the digital single market seeks to digitalize the EU's single market freedoms, implementing EU-wide rules for telecommunications services, copyright protection, and data privacy. The Capital Markets Union (CMU) plan is pivotal in creating a unified market for capital within the EU. Its objective is to ensure that investments, savings, and capital flow across the EU, benefitting consumers, investors, and companies regardless of their location.

Through these initiatives, the EU is committed to strengthening ESG ratings, fostering a unified European market, and promoting sustainable economic development that aligns with global sustainability goals.
2.3. Exploring the European Green Deal and ESG Rules in European Countries

The European Union's Article 114 of the Treaty on the Functioning of the European Union (TFEU) not only enables the Union to remove existing obstacles to the exercise of fundamental freedoms but also empowers it to proactively prevent the emergence of potential barriers in the future. This provision extends to obstacles that hinder market participants, including ESG rating providers and investors, from fully benefiting from the advantages of the internal market (European Commission, 2008).

In essence, Article 114 grants the EU the authority to adopt measures that eliminate hindrances to the "four freedoms" encompassing the free movement of goods, services, people, and capital, while also addressing potential barriers that may arise down the line.

The reference to Article 114 in relation to ESG ratings emphasizes how this article can be invoked to establish a seamless, obstruction-free market for ESG-related activities. ESG ratings play a crucial role for investors and other market participants in evaluating companies' sustainability and ethical practices, influencing investment decisions within the growing sustainable finance sector.

To illustrate with an example: Suppose a specific EU member state introduces a national regulation that establishes different or stricter standards for ESG ratings than other member states. This could create an "obstacle" for ESG rating agencies and investors, leading to a fragmented market with inconsistent standards across the EU. Such fragmentation could result in inefficiencies, increased costs, and the potential limitation of cross-border investments in sustainable projects. By invoking Article 114 TFEU, the EU can harmonize these regulations, ensuring that all member states adhere to a consistent set of rules. This harmonization would eliminate the obstacle, allowing ESG rating providers and investors to operate more freely and effectively throughout the entire internal market.

It's important to note that addressing potential barriers preemptively is equally significant. If the EU foresees a future trend or development that might cause market fragmentation, it can leverage the power conferred by Article 114 TFEU to introduce legislation that prevents such fragmentation from occurring in the first place. This proactive approach ensures the maintenance of a cohesive internal market and promotes a conducive environment for ESG ratings and investments.

Climate change and environmental degradation pose a significant threat to Europe and the world. To address these challenges, the European Green Deal aims to transform the EU into a modern, resource-efficient, and competitive economy. This involves achieving net-zero greenhouse gas emissions by 2050, decoupling economic growth from resource use, and ensuring no person or place is neglected. To support this transformation, one-third of the €1.8 trillion investments in the Next Generation EU recovery plan and the EU's seven-year budget will be allocated to the European Green Deal (European Commission, 2023).

The EU has established a sustainable finance framework; however, stakeholders have identified ongoing market inefficiencies and regulatory gaps that could hinder market growth. A key aspect of developing environmental, social, and governance (ESG) ratings is the quality of data provided by companies. The Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy Regulation require companies to disclose specific ESG factors, which serve as the foundation for
ESG ratings. These ratings are crucial for investment strategies and risk management. Access to reliable and standardized data reduces reliance on estimations and enhances ESG rating assessments through corporate sustainability reports.

New legislative requirements, such as the CSRD, Sustainable Finance Disclosure Regulation, and EU Taxonomy Regulation, increase the demand for ESG ratings. ESG ratings also intersect with the European “Green Bond Regulation”, where issuers can utilize ESG ratings to provide data supporting the alignment of their bond-funded projects with taxonomy. This helps investors assess non-financial performance, particularly for green bond investors.

The European Commission analyzed various policy options related to ESG ratings and providers. For ESG rating providers, the options considered were an industry code of conduct (Option 1), registration and light supervision (Option 2), authorization, principle-based organizational requirements, and risk-based supervision (Option 3). For transparency requirements on ESG ratings and methodologies, the options were minimum disclosure requirements to the public (Option 1) and minimum disclosure requirements to clients of ESG rating providers and rated entities (Option 2). The analysis also considered cost-effectiveness and coherence. Some options, such as national-level registration and supervision, harmonizing methodologies of ESG rating providers, and setting minimum requirements on the content of ESG ratings and detailed templates for disclosure requirements, were discarded early on (European Commission, 2023).

The EU Climate Benchmark Regulation and its Delegated Regulation emphasize the importance of disclosing ESG factors for benchmarks that aim to achieve ESG objectives. This recognizes the significance of ESG factors in benchmarking activities.

2.4. Complexity of ESG factors Integration for MNEs

There is increasing anticipation that climate-related concerns will have a greater impact on financial materiality, particularly for businesses vulnerable to stranded assets and physical hazards associated with fossil fuel demand reduction. However, integrating Environmental, Social, and Governance (ESG) factors faces challenges due to the lack of a regulated reporting structure and varying methodologies used by different data suppliers and rating agencies. The diversity of sectors and businesses further complicates the establishment of uniform measures and criteria for ESG considerations. What is relevant for one industry may not be for another, leading to disagreements about the best interventions. Multinational companies should strive for standardization at the international level despite these challenges.

Determining the economic significance of ESG factors and their influence on long-term performance requires careful investigation and professional judgment. Developing models to quantify their impact on risk and return necessitates intricate econometric methods and assumptions. Distinguishing the specific effects of ESG factors can be challenging due to their direct and indirect impacts on financial performance. Nevertheless, these factors are crucial as they create value for stakeholders.
In a study analyzing the mission statements of publicly traded Central and Eastern European (CEE) corporations, it was found that companies with stronger ESG performances benefit from an enhanced reputation and public image. This leads to easier attraction and retention of employees, increased customer loyalty, and a source of competitive advantage. Ultimately, this results in higher sales growth and reduced costs associated with employee turnover, contributing to the firm's long-term success (Zumente & Bistrova, 2021).

2.5. Enhancing Collaboration and Knowledge Sharing for ESG Integration

Throughout the customization process, nations can greatly benefit from collaboration and knowledge sharing to enhance their ESG integration efforts. By learning from each other's experiences, best practices, and innovative approaches, they can effectively address sustainability challenges. Various international platforms, conferences, and working groups serve as facilitators for this exchange of information and expertise. Here are some notable organizations and events that offer these opportunities on a global scale:

1. **UN Climate Action Summit**

The goal of the summit was to further climate action to reduce greenhouse gas emissions to prevent the mean global temperature from rising by more than 1.5 °C (2.7 °F) above preindustrial levels (United Nations, 2019).

2. **Ceres Annual Conference**

Ceres Global is our flagship event where many of the most influential capital market leaders come together to set the course of action for a more just and sustainable economy by 2030 (CERES official website, 2023).

3. **B Corporation Conferences**

To obtain and maintain certification, companies must achieve a minimum score on a questionnaire analyzing their environmental and social performance and integrate their commitment towards stakeholders (B Corporation Official website, 2023).

4. **World Economic Forum (WEF)**

The foundation organizes every winter, in the ski town of Davos in Switzerland, a meeting between leading exponents of international politics and economics with selected intellectuals and journalists, to discuss the most urgent issues that the world is facing, including in matters of health and the environment (World Economic Forum, 2018).

5. **United Nations Principles for Responsible Investment (UN PRI)**

The UN Principles for Responsible Investment (PRI) is an international organization that works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making (Schmiedeknecht, 2022).
7. **Global Reporting Initiative** (GRI)

The Global Reporting Initiative is an international non-profit body created with the aim of defining the reporting standards for the sustainable performance of companies and organizations of any size, belonging to any sector and country in the world (GRI official website, 2022).

8. **Global Impact Investing Network** (GIIN)

Impact investing is an exciting and rapidly growing industry powered by investors who are determined to generate social and environmental impact as well as financial returns (Global Impact Investment Network Journal, 2023).

9. **Carbon Disclosure Project** (CDP)

The CDP is an international non-profit organization based in the United Kingdom, Japan, India, China, Germany, Brazil and the United States of America that helps companies, cities, states, regions and public authorities to disclose their environmental impact (Matisoff et al., 2013)

These platforms and conferences provide a diverse range of resources for nations, organizations, and individuals to collaborate, learn, and share best practices in ESG integration and sustainability. To ensure the effective execution of tailored ESG approaches, it is crucial to have monitoring and evaluation processes in place. Regular reporting helps track progress and identify areas for improvement, fostering accountability.

Through experiential learning, nations can gain valuable insights from each other's ESG initiative implementation experiences. By fostering cooperation and trust with external stakeholders through CSR (Corporate Social Responsibility), countries can build a strong corporate network that enhances innovation resources, reduces risks, and saves time in implementing ESG strategies. This collaborative approach is crucial in achieving sustainable development goals.

International platforms, such as conferences, forums, and networks, play a vital role in advancing and fostering creativity in addressing sustainability issues. These gatherings bring together decision-makers, professionals, researchers, and practitioners from various nations to share perspectives, discoveries, and successful case studies. By organizing seminars, workshops, and conferences focused on ESG integration, nations have the opportunity to interact and exchange expertise. These events not only provide a platform for networking but also foster constructive discussions on sustainable development techniques.

In conclusion, enhancing collaboration and knowledge sharing is essential for successful ESG integration. By utilizing international platforms and participating in conferences and events, nations can leverage each other's experiences and foster creativity, ultimately promoting a more sustainable future.

Cooperative Approaches for Sustainable Development In order to promote sustainable development, countries can engage in various forms of cooperation, such as cooperative research initiatives, educational programs, and farmer-to-farmer knowledge transfers. These collaborations
can facilitate the exchange of knowledge and strategies related to the circular economy, including effective waste management, recycling infrastructure, and extended producer responsibility. By working together, countries can reduce waste output, promote resource efficiency, and create circular supply chains.

Planning for Sustainable Cities Developed nations can learn from the experiences and strategies of developed countries when it comes to sustainable urban development. Areas of partnership may include community involvement in urban planning, integrated public transit systems, compact city design, and green construction standards. By exchanging expertise, countries can improve urban sustainability and enhance the quality of life for their citizens.

Building Climate Resilience and Adaptation Countries facing similar climate-related challenges, such as coastal erosion, extreme weather events, or water scarcity, can collaborate to develop climate resilience and adaptation measures. This collaboration may involve sharing information on early warning systems, community-based strategies, environmentally friendly techniques, and infrastructure design. By working together, nations can foster resilience and effectively prepare for the impacts of climate change.

Customization for Sustainable and Responsible Practices Customization in the context of ESG (Environmental, Social, and Governance) refers to tailoring sustainable and responsible investment or business practices to meet the specific needs, values, and objectives of different countries, organizations, or investors. Recognizing that each entity operates within a unique context, customization allows for flexibility in adopting ESG frameworks while upholding common overarching principles.

Addressing Industry-Specific Sustainability Challenges Industries often face distinct sustainability challenges. Customization takes into account the specificities of each business and ensures that ESG considerations are relevant and applicable to the industry being evaluated. By tailoring sustainability measures to specific industries, customization optimizes the impact of ESG frameworks.

Acknowledging Varied Contexts and Circumstances Different countries have varying degrees of economic growth, regulatory systems, and cultural standards. Customization acknowledges these differences and enables ESG frameworks to adapt to the unique circumstances and challenges of each country. By considering the local context, customization enhances the effectiveness of sustainability efforts. In conclusion, fostering collaboration and customization in sustainable development initiatives allows for knowledge sharing, tailored approaches, and effective adaptation to address the diverse environmental, social, and governance challenges faced by countries, organizations, and investors worldwide.
2.6. Investment

Improving the quality of data, measurement techniques, and reporting standards requires collaboration among investors, businesses, regulators, and standard-setting agencies. There is a perception that calls for harmonization of sustainability reporting frameworks aim to shift control from a multi-stakeholder process. Facilitating the integration of Environmental, Social, and Governance (ESG) factors into investment decisions not only means enhancing transparency in ESG processes but also involves promoting education, raising awareness, and leveraging technological advancements (Afolabi et al., 2022).

The decision of firms to integrate ESG (Environmental, Social, and Governance) practices often results in benefits such as reduced costs, enhanced product quality, and increased customer satisfaction. These advantages frequently contribute to improved overall firm performance. In fact, several studies have demonstrated that ESG practices have a positive and significant impact on Return on Assets (ROA), as well as on competitive advantage and corporate reputation. ROA is a kind of measurement of the company's ability to generate net income based on certain asset levels or ratios that show how capable the company uses existing assets to create profits or profits (Saputra, 2022).

However, some argue that integrating ESG practices does not necessarily boost corporate profitability due to the substantial R&D (Research & Development) investments needed for sustainability. Indeed, to achieve and enhance ESG performance, firms often need to invest heavily in R&D. Innovation serves as the primary tool many companies use to embark on their sustainability journey. This involves addressing issues like earnings management, Corporate Social Responsibility (CSR), accountability, and transparency. Firms do so by adopting innovations that encompass all three dimensions of sustainability, that is, ESG (Dicuonzo et al., 2022).

The global adoption of ESG (Environmental, Social, and Governance) by nations and MNEs (Multinational Enterprises) is influenced by various factors, including the ability to conduct research cost-effectively. Since reaching a consensus on a single ESG framework that meets the needs of all countries is challenging, the focus should be on promoting cooperation, dialogue, and convergence among nations. This would establish shared values and goals while also allowing for flexibility and customization to address unique national circumstances. Different countries may face distinct environmental, social, or governance challenges that necessitate tailored approaches. Thus, while customization should be encouraged for better adaptation, it's crucial to ensure that the core principles of the shared framework remain intact.

The field of ESG investing is a developing one, ESG conscious investors tend to implement their values through techniques like, negative screening, positive screening, and/or actively engaging with companies to improve their ESG practices.
The three key aspects of ESG and the techniques used to invest with those factors in mind are explained below:

Environmental factors include issues such as climate change, resource depletion, and pollution. An ESG-conscious investor can use negative screening to screen out companies that have a detrimental effect on the environment. By this logic, such an investor would actively avoid investing in tobacco companies, oil and natural gas companies, and so on. An investor who wants to make an impact in these areas can use positive screening to select companies that have strong environmental stewardship practices, prioritize employee wellbeing, and act in a way that is socially responsible.

Social factors include issues such as strong stakeholder management, labor practices, human rights, community engagement, and so on. An investor who wants to make an impact in these areas can use positive screening to select companies that have strong environmental stewardship practices, prioritize employee wellbeing, and act in a way that is socially responsible. Governance refers to the practices and systems that companies use to manage their affairs and make decisions. Governance factors can include a wide range of issues, such as board composition, executive compensation, shareholder rights, and transparency and accountability.

Investors can make an impact on this aspect of the firm by engaging with the company as shareholders. Using their rights and votes as partial owners of the company they can bring about positive changes to the way a company is governed. This can include, advocating for changes in board composition for inclusion and diversity, pushing for more responsible executive compensation, pushing for more transparency and accountability, and advocating for more sustainable and socially responsible business practices.

ESG investing refers to the integration of Environmental, Social, and Governance criteria in investment decision-making. Impact investing is defined as an investment approach that intentionally seeks to create both financial return and positive social and/or environmental impact that is actively measured. While impact investing generally weighs financial, social, and environmental impact equally, ESG investing is mostly a financial-first framework (de Jong & Rocco, 2022).

According to Morningstar, global ESG fund assets reached approximately $2.5 trillion by the end of 2022. Research indicates that ESG investing does not necessarily result in lower financial returns and, in some cases, can even lead to higher returns. Interestingly, the study also reveals that younger investors are willing to accept lower returns to support ESG goals. For example, "investors in their twenties or thirties were willing to accept a loss of 6 to 10 percent in their investments to encourage companies to improve their environmental practices" (Baker & Barba, 2023). Moreover, companies with higher ESG ratings generally have lower capital costs, indicating that investors value ESG factors (Nitlarp & Mayakul, 2023).

The popularity of ESG investing has given rise to new financial products tailored to meet the needs of ESG investors. Notably, ESG-themed exchange-traded funds (ETFs) have emerged as a significant development. Exchange Traded Funds, are open-ended funds that can be subscribed and redeemed in the primary market and traded like stocks in the secondary market, that is, they can be listed on an exchange and traded with variable fund share (Yuan & Zeng, 2023). These funds track indexes comprising companies that meet specific ESG criteria, offering investors exposure to a diversified portfolio of ESG-friendly stocks. As of 2021, there are over 600 ESG-themed ETFs globally, managing assets exceeding $200 billion. Another financial product that has gained prominence due to ESG investing is green bonds. Green bonds are fixed-income securities issued by companies that allocate the proceeds to projects with environmental benefits.
to fund environmentally friendly projects, such as renewable energy infrastructure or sustainable agriculture. The green bond market has experienced rapid growth, with issuance increasing from $3 billion in 2011 to over $270 billion in 2020 (Alamgir & Cheng, 2023).

ESG investing has also prompted the establishment of ESG rating agencies that assess companies' ESG performance. These ratings assist investors in evaluating companies based on their ESG credentials and guide investment decisions. Additionally, new platforms have emerged that enable investors to directly invest in sustainable startups and businesses, empowering them to support companies aligned with their values. Overall, the popularity of ESG investing has expanded the range of financial products available to investors, providing greater opportunities to make investments that align with their beliefs and values.

Central to this are issuers and investors who communicate and leverage information on ESG topics.

2.6.1 ESG Financial Ecosystem

This system is enriched by a network of financial intermediaries, analytical service providers, and a mixture of non-government, private sector, and international organizations. Financial issuers, ranging from sovereign entities and MNEs to SMEs, are disclosing more ESG information in response to demand from investors, ESG ratings providers, and other stakeholders. These ratings providers, which include big names like MSCI, “Sustainalytics”, and “Bloomberg”, evaluate issuers on their sustainability metrics. Simultaneously, ESG index providers like FTSE Russell and “Vigeo Eiris” create benchmarks that aid in tracking the performance of ESG-focused portfolios, thereby influencing portfolio management decisions. Users of ESG ratings, such as asset managers, institutional investors, and public authorities, integrate these insights for investment decisions, with many also conducting their independent ESG analysis. Organizations like (“SASB”), GRI, (“IIRC”), and TCFD help shape the broader ESG narrative by developing disclosure frameworks. Regulatory bodies, stock exchanges, and international organizations further guide and standardize ESG practices and disclosures. However, given the multitude of actors and guidelines, achieving consistent, financially relevant ESG reporting remains an ongoing challenge.

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2 MSCI-Barra is an American financial services provider, headquartered in New York.
3 Sustainability Accounting Standards Board
4 International Integrated Reporting Council
The expansion and establishment of environmental, social, and governance (ESG) methods and techniques need a comprehensive comprehension of the many factors that have led to the institutionalization of the ESG financial ecosystem. The depicted ecosystem includes both issuers and investors who engage in the disclosure and use of information pertaining to environmental, social, and governance issues. This paper primarily examines two key aspects: (i) the interconnected network of financial intermediaries and analytical service providers, and (ii) the many non-governmental, governmental, private sector, and international organizations that are shaping the evolving practices in environmental, social, and governance (ESG) investment. This section examines the primary stakeholders, their respective roles, and the ways in which their actions generate advantages by adding to a much larger volume of prospective knowledge that is beneficial for both financial and social investors.

Furthermore, this approach has the capacity to improve the synchronization of strategic asset allocation, leading to increased long-term value, while also motivating issuers to engage in ethical business practices. Simultaneously, it is important to note that environmental, social, and governance (ESG) practices are still in their nascent phase of evolution. The efforts of many institutional stakeholders involved in the creation or use of frameworks and metrics have not yet converged on universally agreed terminology and procedures on a worldwide scale.(Boffo & Patalano, 2020)

However, there are challenges related to ESG data quality, as data can be incomplete or unreliable. Standardized ESG metrics and reporting are needed to facilitate informed investment decisions (Ricardo et al., 2023). Some argue that ESG investing may not go far enough in creating a positive impact, as it primarily considers the risk profile of investments rather than their potential for impact.

To address these challenges, alternative data can assist impact investors in identifying and managing ESG-related risks.
2.7. International labor standards
The International Labor Organization (“ILO”) published conclusions in 2007 concerning the promotion of sustainable enterprises and in 2016 concerning decent work in global supply chains, hereafter referred to as GVC. Furthermore, the Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework was released in 2011. This was in line with the goals and targets of the 2030 Agenda for Sustainable Development (2015), which is particularly relevant to the Declaration. It's also worth noting the “Addis Ababa Action Agenda” (2015) on financing for development was the outcome of the 2015 Third International Conference on Financing for Development, held in Addis Ababa, Ethiopia (United Nations, 2015). the Paris Agreement (2015) on climate change, and the OECD Guidelines for Multinational Enterprises, which were revised in 2011 (International Labour Organization, 2019).

2.8. GVC
Global Value Chains (GVCs) exemplify the complexities of the contemporary global economy, illustrating the interconnected activities of production, distribution, and consumption that traverse several nations and varied industries. Globally integrated value chains (GVCs) provide a comprehensive depiction of the sequential transformation of raw materials through several stages, across national boundaries, until they reach the level of being fully processed goods ready for consumption.

Supply-chain trade has evolved into an intricate web of global interdependencies, fundamentally rooted in three foundational concepts: Importing to Produce (I2P), Importing to Export (I2E), and Value-Added Trade. The concept of I2P, or "importing to produce," embodies the widest perspective of this trade, where products or services are created using foreign inputs. This implies that even if there isn't a formally organized network, the very act of producing using foreign materials, technologies, or services makes it an integral part of an international production network. Such a perspective challenges the traditional trade theory which suggests that a nation's production is solely based on its indigenous factors and technologies. This concept doesn't just involve raw materials or services; it also extends to imported capital equipment, as such equipment integrates foreign technologies and factors into the domestic production process. On the other hand, I2E, or "importing to export," is more specific and focuses on the use of imported intermediates specifically for producing goods or services that will eventually be exported. It paints a picture of the importing country as a significant hub or node in an expansive global production network, resonating more with the popular understanding of global value chains. Here, even if the broader network doesn't exhibit formal central coordination, the importing nation's role remains pivotal, transforming foreign inputs into exportable commodities(Baldwin & Lopez-Gonzalez, 2015).
2.9. The Impact of Trade Liberalization and Regional Trade Agreements on Global Value Chain Regulations

The review of various literature sources has highlighted the need for updates to global value chain regulations due to three primary reasons: technological advancement, trade liberalization, and competitive global strategies. Among these reasons, trade liberalization stands out as the most crucial factor. It is vital to emphasize this point in our discussion.

Trade liberalization refers to the reduction or elimination of tariffs and non-tariff barriers, with the belief that nations achieve optimal growth by specializing in the production of goods or services in which they have a comparative advantage (Agénor & Aizenman, 1995). This leads to trade with other countries for the remaining commodities. The increase in cross-border commerce has resulted in economic expansion, offering customers a wide range of products at competitive costs, and improving resource allocation.

Trade liberalization has not only occurred on a global scale but also through Regional Trade Agreements (RTAs), between two or more countries that liberalize trade in goods and services between them, through the creation of free trade areas (Vicard, 2011). Initiatives like the European Single Market, allowing the unrestricted flow of commodities, money, services, and labor among member states of the European Union, and the ambitious “Trans-Pacific Partnership” have been instrumental in promoting these transformative developments that is a regional regulatory and investment treaty project in which, until 2014, twelve countries in the Pacific and Asian areas took part in negotiations: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Vietnam (Hossain, 2023). RTAs not only simplify tariff structures but also address complex issues such as non-tariff barriers, intellectual property rights, and the establishment of comprehensive standards. Consequently, they have facilitated the growth and efficiency of GVCs in the international trade system.

However, the swift shift towards trade deregulation has faced opposition. Critics express concerns over potential drawbacks, focusing on the vulnerability of local businesses and the equitable distribution of trade advantages. Nevertheless, there is an indisputable trend towards trade liberalization and an increase in RTAs, which significantly impact the structure of global trade. Consequently, GVCs have become an integral component of the current trade system (Antimiani, A & Fusacchia, L, 2018)

2.10. Legal Framework of GVC

The global interconnectivity of value chains, as evidenced by the impact of the Corona pandemic, shows a vulnerable economic structure prone to social and ecological imbalances during crises. This makes the shift towards resilient and sustainable Global Value Chains (GVCs) crucial.

In a recent project by Anna Beckers (2021), The study aimed to determine the extent to which companies are aligning their operations and practices with the human rights commitments they voluntarily agreed to, thereby providing insights into the effectiveness of the existing guidelines and highlighting areas that may require stronger legislative action.
They recognize a legal framework for GVC based on some principles including:

1- Obligations in a Company-Based Supply Chain Law:

i. The proposed "Supply Chain Law" should emphasize reporting and due diligence requirements for companies in Global Value Chains (GVCs). ii. Companies should transparently report on the intricacies of value generation behind products/services and how they manage and monitor risks within their value chain. iii. Legal standards should be tailored to specific products and industries. Collaboration with businesses, NGOs, and international standards is key. iv. Beyond just civil liability, there should be enforcement mechanisms allowing public and NGO oversight, taking inspiration from France's due diligence law. v. Before any judicial review, a mandatory mediation step should be taken, involving institutions like the National Contact Points for OECD Guidelines. vi. Enforcement should include multiple stakeholders: auditors, external certification bodies, government authorities, and corporate boards (Beckers et al., 2021).

2- Consumer Protection:

i. Adjust unfair commercial practices rules to empower consumer organizations to act against breaches. ii. Consumer sales law revisions should address breaches of minimum production standards.

3- Liability in Global Value Chains:

i. Liability should not be restricted to individual lead companies. Overlapping liability models, considering the entire value chain, should be in place. ii. Market share liability could hold actors accountable based on their contribution to damage and value generation. Fund models for damage compensation can also be considered. iii. The role and liability of certification bodies should be clearly defined.

4- ESG in the context of GVC:

How do these two concepts intersect?

As businesses increasingly become part of global supply chains, their responsibilities extend beyond their immediate operations. These responsibilities include ensuring that every component, product, or service that becomes a part of their final product or offering is sustainably sourced and ethically produced (Gereffi & Lee, 2016).

5- The following points emphasize the integration of ESG (Environmental, Social, and Governance) factors with GVC (Global Value Chain):

i. Different regions possess varying standards and regulations related to environmental conservation, labor rights, and corporate governance. ii. The existence of multiple tiers of suppliers can make monitoring efforts complex. iii. Local customs and practices might sometimes be inconsistent with global ESG standards.

Another crucial relationship between ESG factors and GVC is transparency and traceability. modern consumers, empowered by digital technology, demand more information about the
products they purchase—where they come from, how they're made, and the values upheld by the companies they buy from.

6- The significance of transparency and traceability is highlighted by the following:

i. It enables businesses to identify and address ESG-related risks within their supply chain.

ii. It fosters trust and loyalty among consumers and stakeholders.

iii. It offers a competitive advantage in markets where consumers prioritize sustainability and ethics.

Transparency will remain a key topic in global value chains and will further develop as it piggy-backs on wider social developments such as globalization, the information age, and the shifting role of states in environmental governance. (Beckers et al., 2021)
Chapter 3: International Agreements, Treaties, and Legal Considerations

3.1. Navigating the Future: Overcoming the Challenges of the OECD

The Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises on Responsible Business Conduct are recommendations addressed by governments to multinational enterprises. They aim to encourage positive contributions enterprises can make to economic, environmental, and social progress, and to minimize adverse impacts on matters covered by the Guidelines that may be associated with an enterprise’s operations, products, and services. The Guidelines cover all key areas of business responsibility, including human rights, labor rights, environment, bribery and corruption, consumer interests, disclosure, science and technology, competition, and taxation. The OECD Guideline every year publishes. The 2023 edition of the Guidelines provides updated recommendations for responsible business conduct across key areas, such as climate change, biodiversity, technology, business integrity, and supply chain due diligence, as well as updated implementation procedures for the National Contact Points for Responsible Business Conduct.

However, the Guidelines are recommendations for multinational enterprises set forth by governments to promote responsible business conduct. While these guidelines are not legally binding, they align with international standards and good practices. They do not override domestic laws, but in cases where there’s a conflict between the guidelines and local regulations, companies are urged to honor the guidelines as much as possible without breaking the law.

These are some important principles of these regulations:

i. Those Companies who adhere to the Guidelines need to refrain from using them with the intention of promoting protectionism, and should also avoid employing them in a manner that undermines the concept of comparative advantage in countries where multinational businesses make investments.

ii. It is within the purview of governments to establish the parameters within which multinational corporations conduct their operations within their respective jurisdictions, in accordance with the principles of international law. The entities of a multinational firm situated in different countries are bound by the legal frameworks that are relevant inside those respective nations. When multinational firms encounter contradictory demands from host nations or third countries, it is recommended that the respective governments engage in sincere cooperation to address any resulting issues.

iii. Those that adhere to the Guidelines do so with the idea that they will fulfill their responsibility to treat firms fairly, in accordance with international law and their contractual commitments.

iv. It is advisable to promote the use of suitable international dispute settlement processes, such as arbitration, in order to ease the resolution of legal issues that arise between corporations and governments of host countries.

v. Those who adhere to the Guidelines will actively implement and advocate for their adoption. National Contact Points (NCPs) will be established with the aim of promoting the Guidelines for Responsible Business Conduct and facilitating discussions on all subjects pertaining to them.
National Contact Point (NCP) is an institution established under the Ministry of Economic Development - Directorate General for Industrial Policy Innovation and Small and Medium-sized Enterprises whose main role is to further the effectiveness of the OECD Guidelines for Multinational Companies.

Adherents shall engage in suitable review and dialogue processes to effectively resolve issues pertaining to the interpretation and execution of the Guidelines, therefore guaranteeing their ongoing significance in an evolving global context. (OECD, 2023)

In the investigation that has been conducted, the challenges showed

Out of the 69 respondents to the survey on the OECD Guidelines for Multinational Enterprises, 94% (or 65 respondents) identified at least one challenge within the Guidelines. A notable concern, raised by a third of the respondents, is the urgency of addressing the impact of businesses on vulnerable groups. These respondents emphasize that the Guidelines currently do not adequately address issues such as gender discrimination and its specific effects on women and children. Furthermore, there is a noticeable gap in addressing threats to shrinking civic spaces and the protection of human rights and environmental defenders. The respondents argue that the Guidelines lack clear expectations for enterprises in these contexts.

Moreover, the Guidelines should include clearer provisions for enhanced due diligence, particularly in situations involving at-risk, marginalized, or disadvantaged groups, such as indigenous peoples, individuals from low-caste backgrounds, migrant and informal workers, and LGBTQI+ minorities. Interestingly, 34% of the respondents who identified challenges believe that the NCP system and access to remedies pose significant obstacles to the role of the OECD Guidelines in promoting Responsible Business Conduct since 2011. It is worth mentioning that
while the NCP system and access to remedies are recognized as achievements, they are also seen as primary challenges, indicating a need for more effective implementation. This sentiment underscores the importance of a strengthened NCP system and the introduction of additional non-judicial and judicial mechanisms for providing remedies (Boffo & Patalano, 2020).

3.2. Institutional mechanism for implementing of OECD Guidelines

![Figure 7. Institution Role in implementation of OECD (OECD Observer, 2001)](image)

National Contact Points (NCPs):

NCPs act as the primary domestic structures promoting the Guidelines. They ensure the national business community is informed about the Guidelines, handle related inquiries, and report experiences to CIME. Their role is pivotal, as they're expected to operate transparently and accountably.

OECD Committee on International Investment and Multinational Enterprises (CIME):

CIME oversees the Guidelines' implementation on an international scale. They address countries' queries, conduct dialogues with various stakeholders, issue clarifications, and report to the OECD Council. They provide overarching oversight without intervening in specific NCP decisions.

Advisory Committees to the OECD:

Comprising the Business and Industry Advisory Committee (“BIAC”) and the Trade Union Advisory Committee (“TUAC”), The Business and Industry Advisory Committee to the OECD (BIAC) represents the national business community of OECD member and observer countries, industry and workers’ cooperatives and sector-specific international experts. The OECD Trade
Union Advisory Committee is the Organization for Economic Co-operation and Development's interface with organized labor. TUAC has 59 affiliated trade union centers in 31 OECD countries, representing more than 66 million workers (BIAC, 2015).

These committees represent the interests of business and labor. They engage with the CIME on Guideline matters and are vital channels for business and labor feedback.

Non-Governmental Organizations (NGOs):

NGOs bring in the civil society perspective. They can engage with NCPs, participate in promotional activities, and are periodically consulted by the OECD on Guideline-related topics.

In essence, the implementation of the OECD Guidelines relies on a cohesive effort involving national entities (NCPs), international oversight (CIME), advisory committees, and civil society NGOs (OECD Observer, 2001).

3.2. The Impact of Business Relationships and Human Rights in Supply Chains: Insights from the OECD Guidelines 2023

The OECD Guidelines of 2023 shed light on the complexities of business relationships and the crucial role of supply chains in shaping human rights. In Provisions 17 and 24, the scope of business relationships is outlined, emphasizing their potential impacts beyond immediate ties. Provision 17 highlights the importance of proactive management in identifying and mitigating adverse effects within the supply chain. Provision 24 recognizes the limitations of influence post-sale, emphasizing the need for responsible oversight.

The OECD guidelines further address human rights in Provisions 45, 48, and 50. Provision 45 emphasizes the potential impact of supply chains on internationally recognized human rights, with specific attention to vulnerable groups. Provision 48 recognizes that enterprises can be linked to human rights infringements through their supply chains, necessitating diligent oversight to prevent contributions to such breaches. Provision 50 emphasizes the ongoing need for human rights due diligence, urging businesses to identify and address risks within their supply chains, especially for marginalized demographics.

Through these guidelines, the OECD highlights the operational significance of supply chains and advocates for early intervention and responsible management to ensure ethical practices and uphold human rights (OECD Council, 2023).

3.3. Corporate Sustainability Due Diligence (CSDD)

By preparing to adopt a Directive on Corporate Sustainability Due Diligence (“CSDD”), the EU is entering uncharted territory. The challenges of tackling environmental, social and governance issues are enormous, as are the ambitions and concerns accompanying the legislative process. For lack of robust experience at national level, the design of legislative mechanisms is driven by aspirations to avoid the pitfalls of existing voluntary due diligence mechanisms and lessons learned from lawsuit attempting to hold individual companies accountable based on national tort laws.

The proposed CSDD Directive is neither the first nor an isolated move aiming at mandating responsible supply chain management: it builds on the combination of (partly very recent) rules to
secure information about ESG issues in companies’ value chains and a piecemeal set of due diligence and/or liability standards in specific constellations (European Commission, 2022a).

The proposed CSDD Directive is not the first, nor is it an isolated initiative aimed at mandating responsible supply chain management. It builds on a combination of (some very recent) rules designed to ensure information about ESG issues in companies’ value chains and a piecemeal set of due diligence and/or liability standards in specific scenarios. A significant recent milestone, which compels a considerable number of European companies to scrutinize their value chains, is the reform of the Non-Financial Reporting Directive 2014/95/EU (“NFRD”). Currently, this Directive applies to around 12,000 companies—those with more than 500 employees that also meet specific turnover criteria. If company is based in the European Union and has more than 500 staffing members, be required to adhere to the regulations of the NFRD – otherwise known as the non-financial reporting directive (European Union, 2014). The Commission is undoubtedly correct in asserting that the Directive has "had some positive impact," especially in terms of incorporating ESG issues into standard business administration. However, critics were quick to highlight the limitations of a tool that effectively allowed companies to determine the issues to report and the methods of substantiating their sustainability claims. A study commissioned by the Commission reveals that corporate sustainability-related reporting tends to emphasize the risks they encounter due to ESG issues, rather than their role in causing or exacerbating them.

In light of these deficiencies, only a few years after the Directive's implementation, the Commission proposed a revision. This revision was adopted as the Corporate Sustainability Reporting Directive 2022/2464 (“CSRD”) in late 2022. EU rules require large companies and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment. Apart from extending its scope to cover all large and/or listed companies (amounting to roughly 50,000 entities in the EU), the CSRD now mandates an audit (or assurance) of all disclosed information. It also introduces a more unified approach through the new Sustainability Reporting Standards (SRS). The European Financial Reporting Advisory Group (EFRAG) has been tasked with developing these standards. The CSRD will be implemented in phases, with the first group of companies expected to comply in their reports for the financial year 2024 (European Union, 2022).

3.4. European Union Parliament Frameworks

European Union on the date of (21-06-2022) published a statement, named (“New social and environmental reporting rules for large companies) which mentions the rules and standards as a framework for their performance, this statement includes:

The Corporate Sustainability Reporting Directive (CSRD) will make businesses more accountable by obliging them to disclose their impact on people and the planet. This aims to end greenwashing and lay the groundwork for sustainability reporting standards at the global level.

The new EU sustainability reporting requirements will apply to all large companies (with over 250 employees and a 40-million-euro turnover, as defined in the accounting directive), whether listed
or not. Companies will have to report on their impact on the environment, human rights, social standards, and work ethics, based on common standards.

Also, in agreement mentioned stipulates that the information companies provide on their impact on the climate or human rights will be independently audited and certified.

A handful of SMEs listed on public markets will be subject to lighter reporting standards. Members of the European Parliament (MEPs) managed to secure the possibility for them to opt out of the new system until 2028. MEPs also inserted guarantees so subcontractors can only be asked by their contractual partners to provide information according to a lighter version of reporting standards. Non-EU companies follow the rules too, and subcontractors are protected. On the day of the agreement also mentioned “Parliament and Council will have to formally approve the agreement before it is published in the EU Official Journal. It will enter into force 20 days after publication and its provisions will have to be integrated into member states’ national laws after 18 months”.

These agreements establish worldwide norms and standards for ethical business research, which has an impact on MNE’s strategies, policies, and behaviors in numerous ways (European Parliament, 2022).

Since the majority of European countries are members of the European Union, the legal framework and regulations relating to ESG factors in those countries almost always adhere to particular standards and legal frameworks and follow particular procedures approved by the European Union. As a result, different categories will be used to study and analyze the legal system of ESG factors for MNEs in European countries.

Categorization of multinational enterprises MNEs based on their geographical location.

Categorization of Multinational Enterprises MNEs Based on the Political Systems of European Countries

This Categorization encompasses both the countries that are members of the European Union and those that are not affiliated with this political structure.

3.5. European Regulation ESG Impact on Business Globally

Lawmakers are often affected by decisions made by decision-makers in other regions of the world due to this global interdependence and, as a result, both legal and natural persons are affected by legislation issued both in their country and overseas. In this regard, the European Union has led the path for countries worldwide in a wide variety of regulations, setting high standards in aspects like banking services and social protection (Alamillos & de Mariz, 2022).

The concept of the "Brussels Effect" provides empirical evidence about its impact in several domains, including international commerce, laws concerning trash and chemicals, data regulation, and Environmental, Social, and Governance considerations. The Brussels effect is the process of unilateral regulatory globalization caused by the European Union (but not externalizing its laws outside its borders through market mechanisms (Bendiek & Stuerzer, 2023). Instances of this phenomena include the European law pertaining to trash, such as the Restrictions on Hazardous Substances (ROHs) and the Waste of Electronic Equipment (WEE), as well as legislation
concerning chemicals, such as the Registration, Evaluation, Authorization of Chemicals (REACH). Another example is the General Data Protection Regulation (GDPR). As a result, multinational corporations have chosen to implement these standards across all their subsidiary entities in order to enhance operational efficiency and overall effectiveness.

Differences in environmental, social, and governance (ESG) regulations across markets can lead to regulatory arbitrage, wherein companies choose to operate under the least stringent rules, a phenomenon referred to as "taxonomy shopping." This has been highlighted by the EU’s inclusion of natural gas and nuclear power in its taxonomy, illustrating potential divergences between regions.

The “EU” has been at the forefront of introducing rigorous ESG regulations, shaping aspects like disclosure, accountability, carbon markets, and international trade. These regulations are influencing global business practices, with companies focused on social value poised to thrive in an ESG-aligned regulatory environment. While some argue environmental regulations lead to a "race to the bottom" evidence suggests otherwise. Race to the bottom is often used in socio-economic discourse to refer to either the phenomenon of government deregulation in the business environment or the decrease of corporation tax rates. These actions are undertaken by governments with the aim of attracting or retaining economic activity within their jurisdictions (Guasti & Koenig-Archibugi, 2022). The "California Effect" illustrates this, with many other laws from political jurisdictions to those with more rigorous regulatory requirements with stringent car emissions standards in California prompting other U.S. states to follow suit.(Frankenreiter, 2022). This upward trend might signal an "ESG Brussels Effect" as other countries also start incorporating ESG into their policies. The EU’s influence on global ESG standards stems not just from its strict regulations but also its strategic position in key global institutions. Collaborative efforts between countries, enhanced regulatory oversight, and “third-party” auditing are crucial for achieving global climate goals, such as those outlined in the Paris Accord.

3.6. Navigating Legal Risks and Liabilities: MNEs and ESG Integration
Multinational Enterprises MNEs embarking on Environmental, Social, and Governance ESG integration face a multitude of legal risks and liabilities across their global operations. Compliance with various and stringent regulatory frameworks becomes imperative. Environmental regulations insist on adherence to local laws governing emissions, waste disposal, and conservation efforts. Labor laws necessitate fair treatment of workers, including equitable wages and safe working conditions. Failure to meet these requirements can result in severe penalties and legal action.

Supply chain management poses another significant challenge. MNEs must carefully assess suppliers for compliance with ESG standards, as involvement in unethical practices can lead to legal consequences. Data privacy and security further complicate matters, with strict regulations like GDPR and CCPA mandating the protection of customer data. Non-compliance in this area can result in substantial fines.

is to safeguard the privacy and personal data of EU citizens and residents. This regulation applies
to any organization, regardless of its location, that processes or controls the personal data of
individuals in the EU. The key principles and provisions include:

1- Lawfulness, Fairness, and Transparency: Data processing must be legal, fair, and
transparent to the data subject.
2- Purpose Limitation: Data should be collected for specified, explicit, and legitimate
purposes.
3- Data Minimization: Only the minimum amount of data necessary for the intended purpose
should be collected.
4- Accuracy: Data must be accurate and kept up-to-date.
5- Storage Limitation: Data should not be stored for longer than necessary.
6- Integrity and Confidentiality: Data must be kept secure and protected against unauthorized
access or loss (Parliament et al., 2020).

Adhering to these six fundamental principles outlined in the GDPR is crucial for MNEs to handle
personal data lawfully and ethically. By doing so, they ensure the protection and privacy of
individuals' information. Transparency, purpose limitation, data minimization, accuracy, storage
limitation, and data security play pivotal roles in safeguarding personal data and mitigating legal
risks

3.7. Managing Data in Compliance with GDPR and CCPA:
The Impact of GDPR on Multinational Enterprises: Multinational Enterprises (MNEs) that operate
globally face significant hurdles in effectively managing data in accordance with the General Data
Protection Regulation (GDPR). To comply with the strict requirements of GDPR regarding cross-
border data transfers, organizations must diligently monitor and supervise the flow of data across
international boundaries. MNEs also need to ensure that their vendors and suppliers adhere to
GDPR since they often handle personal data as part of the supply chain operations. Moreover,
GDPR grants substantial rights to individuals, including the ability to access, correct, and delete
their personal data. Therefore, MNEs must implement streamlined procedures to respond quickly
to these requests and protect the rights of data subjects.

Understanding CCPA and its Impact: The California Consumer Privacy Act (CCPA) is a privacy
law, signed into law on June 28, 2018, creates an array of consumer privacy rights and business
obligations regarding the collection and sale of personal information and into effect Jan. 1, 2020
(Goldman, 2020). It grants California residents certain rights over their personal information held
by businesses and imposes obligations on those businesses. Although CCPA is a state-level
regulation, its impact is significant due to California's economic importance. This means that
MNEs operating in or dealing with California may need to comply with CCPA. The provisions
updated on the official CCPA website5 on May 2023 (CCPA, 2023).

Key Provisions of CCPA:

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5 https://oag.ca.gov/privacy/ccpa
1- Right to Know: Consumers have the right to know what personal information is collected about them and how it is used or shared.

2- Right to Delete: Consumers can request the deletion of their personal information.

3- Right to Opt-Out: Consumers have the right to opt out of the sale of their personal information.

4- Scope and Jurisdiction: MNEs operating in or engaging with California may need to comply with CCPA due to the state's economic prominence.

5- Data Mapping and Transparency: MNEs need robust processes to identify and track the personal information they hold and be transparent about its use.

6- Opt-Out Mechanisms: Implementing effective mechanisms for consumers to opt out of data sharing and selling practices can be challenging, especially for organizations with complex data ecosystems.

Challenges for Multinational Enterprises: Multinational Enterprises (MNEs) face significant challenges in complying with the California Consumer Privacy Act (CCPA). Despite being a state-level regulation, CCPA holds substantial weight due to California's economic prominence, potentially necessitating compliance for MNEs operating within or engaging with the state. Furthermore, MNEs must establish robust processes for data mapping and transparency, ensuring they can accurately identify and monitor the personal information they possess while also maintaining transparency regarding its utilization. Additionally, implementing effective opt-out mechanisms for consumers to abstain from data sharing or selling practices presents a formidable task, especially for organizations with complex data ecosystems.

Chapter 4: Data Privacy and Supply Chain Compliance

4.1. The Role of Home Countries in Shaping Global Regulations and Policies for Multinational Enterprises

Foreign Corrupt Practices Act (FCPA) is a pivotal piece of legislation emphasizing the necessity of “anti-bribery” and “anti-corruption” compliance for multinational enterprises (MNEs) engaged in international operations. Enacted in 1977 by the United States, the FCPA has two primary provisions. This Foreign Corrupt Practices Act and Anti-Bribery Compliance Policy covers the worldwide operations and its subsidiaries;

• All of the Company’s directors, officers and employees.

• all distributors, consultants, joint venture partners and other third-parties that have or are likely to have.

The first provision, known as the Anti-Bribery Provision, prohibits offering, promising, authorizing, or providing anything of value to foreign officials, political parties, or candidates with the intent of obtaining or retaining business. This applies to companies listed on U.S. stock exchanges and foreign firms engaging in corrupt practices within U.S. territories. The second provision focuses on accounting, mandating accurate record-keeping and internal accounting controls to ensure transparency and accountability in financial transactions. Non-compliance with
the FCPA carries severe consequences, including substantial fines, criminal charges, and reputational damage (Lantheus, 2020).

The Act underscores the critical need for robust anti-bribery and anti-corruption compliance programs within MNEs, involving policies, employee training, due diligence on partners, and ongoing monitoring to ensure adherence to FCPA requirements.

The Importance of Transparency and ESG Compliance Transparency laws require MNEs to accurately and comprehensively disclose their Environmental, Social, and Governance (ESG) performance. Providing inaccurate or incomplete information can lead to regulatory penalties and damage to the company's reputation. To mitigate these risks, MNEs must implement robust ESG policies, conduct thorough due diligence in their operations and supply chains, and seek legal counsel to ensure compliance with evolving legal and regulatory frameworks related to ESG integration.

The Influence of Home Countries in Shaping Regulations and Policies Home countries play a pivotal role in shaping the regulatory landscape and policies of multinational enterprises MNEs operating globally. These nations hold a vested interest in the activities of their domestic companies abroad, as they are often seen as ambassadors of their home country's values and standards. The influence of home countries on international regulations and policies is essential for maintaining ethical business practices, safeguarding national interests, and upholding global standards of conduct.

Governments of home countries have a duty to establish and enforce regulations that govern the conduct of their companies operating internationally. This includes setting standards related to environmental practices, labor rights, and corporate governance. These regulations serve as a foundation for MNEs to operate responsibly and sustainably on a global scale.

Corporate Governance and its role in regulation corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses the relationships between shareholders, management, and other stakeholders. Home nations use corporate governance principles to regulate the conduct of businesses, ensuring that they operate ethically and in accordance with legal and societal expectations. By establishing standards for transparency, accountability, and responsible decision-making, home countries contribute to the creation of a fair and sustainable business environment (Doh & Guay, 2006).

Notably, the Sarbanes-Oxley Act in the United States was enacted to augment corporate governance and elevate the standards of financial reporting. The Sarbanes-Oxley Act, officially titled the Public Company Accounting Reform and Investor Protection Act of 2002, and generally referred to as Sarbanes-Oxley or Sarbox, is a piece of federal legislation (Zhang, 2007).

4.2. The Impact of the Sarbanes-Oxley Act on Corporate Governance Practices

4.2.1. The Sarbanes-Oxley Act: Transforming Corporate Governance

The “Sarbanes-Oxley Act” enacted by the U.S. Congress in 2002, stands as a landmark piece of legislation that significantly transformed corporate governance practices within the United States. Named after its co-sponsors, “Senator Paul Sarbanes” and Representative “Michael Oxley”, the
act was a direct response to a series of high-profile corporate accounting scandals, most notably the Enron and WorldCom debacles. These scandals revealed grave deficiencies in financial reporting and accountability, leading to widespread public mistrust in corporate entities.

4.2.2. Bolstering Transparency and Accountability
The Sarbanes-Oxley Act introduced a sweeping set of reforms aimed at bolstering transparency, accuracy, and reliability in financial reporting. One of its central provisions established stringent requirements for the certification and accuracy of financial statements. CEOs and CFOs were required to personally attest to the accuracy of their company's financial reports, assuming personal liability for any discrepancies. This provision aimed to instill a greater sense of accountability at the highest levels of corporate leadership.

4.2.3. Enhancing Internal Controls and Auditor Independence
The act mandated the establishment of internal controls and procedures for financial reporting. Companies were required to assess and disclose the effectiveness of these controls, ensuring they were adequate to safeguard against financial misstatements or fraud. This requirement aimed to enhance the reliability of financial information and mitigate the risks associated with inaccurate reporting. In addition to these measures, the Sarbanes-Oxley Act also introduced stringent regulations pertaining to auditor independence. It imposed restrictions on the types of non-audit services that auditing firms could provide to their clients, minimizing potential conflicts of interest and bolstering the objectivity and independence of auditors.

4.2.4. A Paradigm Shift in Corporate Governance
The Sarbanes-Oxley Act represented a paradigm shift in corporate governance practices, emphasizing accountability, transparency, and accuracy in financial reporting. By setting forth these comprehensive reforms, the act sought to restore investor confidence and ensure that companies operated with the highest ethical standards. The enduring impact of this legislation reverberated far beyond U.S. borders, influencing corporate governance practices worldwide.

4.2.5. Encouraging Responsible Business Behavior
Furthermore, home countries often play a crucial role in encouraging responsible business behavior through incentive programs, subsidies, and tax policies. By providing economic incentives for multinational enterprises (MNEs) to adopt ethical and sustainable practices, governments can positively influence the behavior of their companies in the global arena.

4.2.6. Advocates on the International Stage
Home countries also act as advocates for their companies on the international stage. They engage in diplomatic efforts to negotiate trade agreements, advocate for fair competition, and address disputes that may arise between MNEs and host countries. Through diplomatic channels, home countries strive to ensure a level playing field and promote ethical and responsible business practices globally.

In conclusion, the Sarbanes-Oxley Act revolutionized corporate governance practices in the United States, instilling accountability, transparency, and accuracy in financial reporting. Additionally, home countries play a vital role in encouraging responsible business behavior and advocating for their companies on the global stage. These combined efforts aim to promote ethical and sustainable
practices, fostering a more transparent and responsible business environment worldwide (Doh & Guay, 2006).

4.3. potential legal actions by stakeholders, investors, or host countries

As multinational enterprises (MNEs) strive to navigate the complex landscape of global business operations, they may face legal actions from various stakeholders, including investors and host countries. These legal challenges can have a significant impact on the reputation and financial stability of MNEs. It is essential for responsible corporate governance and sustainable business practices for MNEs to understand and mitigate these risks.

Stakeholders such as customers, employees, and communities have a vested interest in MNEs' operations and are becoming increasingly conscious of their impact on society and the environment. If stakeholders believe that an MNE's actions are detrimental to their interests, they may choose to take legal action. This could involve lawsuits related to environmental damage, labor rights violations, or other social and ethical concerns.

Let's consider a hypothetical example involving an MNE in the textile industry. If it is discovered that this company is engaging in exploitative labor practices, such as employing underage workers or providing unsafe working conditions, it could greatly impact the affected individuals' lives and the MNE's reputation.

In such a case, stakeholders such as advocacy groups, local communities, and even informed consumers may decide to pursue legal action against the MNE. This could involve filing lawsuits seeking compensation for the affected workers, advocating for better labor standards, or pushing for regulatory penalties against the company.

A real-world example of this is the case of Nike in the 1990s. When it was revealed that some of its overseas suppliers were using child labor in poor working conditions, Nike faced significant backlash and legal challenges. This prompted the company to take substantial steps to improve its supply chain practices and enhance labor standards.

This example demonstrates how stakeholders can use legal action to hold MNEs accountable for their actions, especially when they believe that the company's operations are detrimental to their interests or the broader interests of society. It also emphasizes the importance of responsible corporate behavior and the potential consequences for businesses that do not meet ethical and social expectations.

The case of “Chevron Corporation” in the Ecuadorian “Amazon” is another significant example of stakeholders taking legal action to address concerns.

Let's consider the example of “BP's Deepwater Horizon oil spill” in 2010 in the Gulf of Mexico. In this case, the United States, as the host country, played a crucial role in ensuring compliance with its regulatory framework. The Deepwater Horizon oil rig, operated by BP, experienced a catastrophic blowout, resulting in one of the largest environmental disasters in U.S. history. The spill had devastating effects on marine and coastal ecosystems, impacting wildlife, fisheries, and local communities (BP official website, 2010).
To address the situation, the U.S. government took immediate action. Regulatory agencies like the Environmental Protection Agency (EPA) and Department of Justice (DOJ) conducted thorough investigations to determine the causes of the disaster and evaluate BP's adherence to existing regulations. The Environmental Protection Agency is an agency of the federal government of the United States of America, charged with the protection of the environment and human health, pursued through the timely application of the laws approved by the Congress of the United States of America (Kenton, 2021).

Based on the findings, the U.S. government pursued legal action against BP, resulting in significant fines, penalties, and compensatory payments. BP was held accountable for violations of the Clean Water Act, the Oil Pollution Act, and other relevant regulations. Ultimately, BP agreed to pay billions of dollars in settlements, reflecting the severity of the incident and the legal consequences of non-compliance.

In response to the Deepwater Horizon disaster, the U.S. government implemented stricter regulations and enhanced oversight for offshore drilling operations, with the aim of preventing similar incidents in the future. This highlights the important role of host countries in holding multinational enterprises (MNEs) accountable for their actions and ensuring the enforcement of regulatory frameworks to protect the environment and society.

From the standpoint of international environmental law, a country's entitlement to effective governance stems from its sovereignty over resources, while the responsibility of the host nation to control multinational businesses in order to safeguard the environment aligns with the host nation's prerogative for environmental management. This obligation necessitates that in instances where multinational enterprises engage in behavior that results in environmental harm to the host country, the host country should address the nexus between multinational corporations' investments and environmental preservation based on the principle that environmental standards should not be compromised. The host nation bears the responsibility of safeguarding the environmental rights of its citizens in the presence of multinational corporations. It is incumbent upon the host country to address and rectify any environmental harm caused by these corporations within its borders. The state is obligated to provide compensation and rectify any shortcomings in accountability exhibited by private entities when they are unable to assume responsibility.(H. Liu, 2023)

To mitigate such risks, MNEs should prioritize comprehensive compliance programs, conduct thorough due diligence in their operations, and transparently communicate their efforts in environmental, social, and governance (ESG) factors. Engaging with stakeholders, actively addressing their concerns, and proactively adhering to host country regulations are vital strategies for minimizing the potential for legal actions and safeguarding reputation.

4.4. Legal Considerations in M&A and FDI
Mergers and acquisitions (M&A) refer to the joining of companies or assets through financial transactions. In a merger, two companies decide to combine and move forward as a single entity, sharing resources and profits. On the other hand, an acquisition occurs when one company
purchases another, either by buying its stock or assets. M&A is often motivated by achieving economies of scale, diversifying product lines, or capturing a larger market share.

Mergers and acquisitions, as well as Foreign Direct Investment (FDI), involve various legal considerations. For example, the regulations identify several vague factors to be considered in determining whether an allocation is reasonable, including:

(i) whether income, deduction, and credit items are allocated inconsistently;

(ii) whether facts, such as a prearranged transaction, exist that indicate that the transaction is not properly allocable to the post-acquisition portion of the acquisition day (Ginsburg et al., 2015).

Performing due diligence is an essential step in assessing the liabilities and value of a company, as explained in Due Diligence: Planning, Questions, Issues by Gordon Bing. It helps the buyer evaluate the financial, operational, and legal risks associated with the target.

Regulatory approvals are a significant concern in M&A and FDI, with antitrust and competition laws being crucial in many jurisdictions to prevent monopolistic behavior. The book "The Antitrust Revolution" by Kwoka and White (Oxford University Press, Latest Edition) discusses the regulatory scrutiny faced by mergers that significantly impact market dynamics. Additionally, restrictions on FDI in specific sectors are common across countries, explored in "Foreign Direct Investment: Impact on U.S. Economy" by Jonathan E. Sanford Congressional Research Service, 2020.

ESG (Environmental, Social, and Governance) considerations have become influential in M&A and FDI decision-making for multinational enterprises MNEs. Environmental factors, especially after the “Paris Agreement”, have reshaped global investments, as highlighted in the "World Investment Report 2020" by United Nations Conference on Trade and Development (UNCTAD). M&A strategies now involve assessing a target company's environmental practices. Compliance with social tenets, including labor rights and human rights, is also crucial, as outlined in the OECD Guidelines for Multinational Enterprises. Governance, emphasizing ethical operations, transparency, and accountability, forms the third pillar of ESG.

To ensure transparent governance mechanisms, companies are encouraged to follow guidelines suggested in various resources.

**4.4.1 ESG Governance Model of Parent companies**

In the realm of corporate finance, the term "parent company" refers to a firm that has a significant number of shares or equity in another company, enabling it to exert substantial control over the management of such company. A firm that is owned by a parent company, whereby the ownership is represented by shares or stocks, is sometimes referred to as a "subsidiary company" (Zahra & Siddiqui, 2020).

ESG issues across the Group revolve around a newly defined role in the organization of the Company, namely the ESG Manager.

The ESG Manager fulfills several key responsibilities in relation to environmental, social, and governance (ESG) issues within their operational structure. These responsibilities include:
1. Assisting the ESG Strategy Office in identifying the ESG objectives of the operational structure.
2. Coordinating and monitoring the activities that are designed to achieve these objectives.
3. Analyzing the impacts of ESG issues within the operational structure, specifically focusing on the issues falling within their area of expertise. This analysis involves identifying both risks and opportunities.
4. Managing the relationships with stakeholders on behalf of the operational structure.

4.4.2 Board of Directors
1. defines the Group’s guidelines and strategies with regard to ESG issues, sustainability and climate change (CC) management.
2. approves the Consolidated Non-Financial Statement (or Sustainability Report).
3. approves the Business Plan.
4. approves the Risk Appetite Framework and the risk governance policies, complementing the with ESG factors over time.
5. approves the Sustainability Plan (Modena, 2022)

In the context of ESG form of governance, the board of directors has the primary duty for overseeing the management of a company. While manager is primarily tasked with executing operational activities and evaluating data, the board of directors focuses on decision-making and approving strategic business plans, as well as assessing and mitigating risks.

4.5. ESG Reporting Standards and Guidelines
ESG reporting standards and guidelines constitute a cornerstone of transparent and accountable corporate governance in the contemporary business landscape. These frameworks furnish companies with a structured approach to disclose critical information about their sustainability practices. Adhering to established ESG reporting standards not only signifies a commitment to responsible practices but also empowers stakeholders to evaluate and benchmark performance in a standardized and meaningful manner.

4.5.1 Global Reporting Initiative (GRI)
The Global Reporting Initiative (GRI) is an independent international organization that has pioneered corporate sustainability reporting since the 1990s. It has established a comprehensive sustainability reporting framework that is widely used around the world by businesses, governments, and other organizations. The GRI Standards provide a globally recognized framework for companies to report on their economic, environmental, and social performance.

The GRI framework presents a comprehensive, globally recognized set of guidelines for organizations to report on a diverse array of ESG subjects, encompassing environmental impact, labor practices, human rights, and governance structures. Embracing GRI standards enables companies to offer a clear, standardized view of their sustainability endeavors, facilitating comparisons across industries and regions.
The GRI has set the gold standard for sustainability reporting across the globe. While these standards are voluntary, they are often seen integrated, either directly or indirectly, within legal frameworks that apply to multinational enterprises MNEs in essence, while the GRI standards themselves started as a voluntary framework, their widespread acceptance, and the increasing global emphasis on sustainability, have meant that they are now finding their way into mandatory legal frameworks in various jurisdictions. MNEs, to ensure compliance and remain competitive, need to be cognizant of these evolving mandatory and voluntary landscapes.

According to this assumption, we can say while the NFRD doesn’t enforce GRI standards explicitly, it mandates large companies in the EU to disclose non-financial information, covering aspects like environmental impact, social responsibility, and treatment of employees. Many companies use GRI as a guiding framework to fulfill these requirements due to its comprehensive nature and global acceptance.

Several non-European countries are integrating sustainability reporting within their legal structures. Some, like South Africa with its Johannesburg Stock Exchange requirements, either directly reference GRI or align closely with its standards. For MNEs operating in these jurisdictions, there may be a direct legal obligation to adhere to GRI standards or ensure compatibility with them.

Financial institutions and major investors, recognizing the significance of rigorous sustainability reporting, are increasingly favoring companies that adopt GRI standards. While not legally mandated, these entities may prioritize or even stipulate GRI-compliant reports to assess ESG risks associated with their investments or lending. This acts as a de facto voluntary standard that MNEs might adopt to remain attractive to potential investors and financial partners.

In jurisdictions without legal requirements, adopting GRI standards positions MNEs as leaders in sustainability and corporate responsibility. By adhering to these global standards, companies voluntarily signal to stakeholders – including consumers, employees, and partners – their commitment to transparency and sustainable operations.

4.5.2 Sustainability Accounting Standards Board (SASB)

Another framework in ESG reporting is the Sustainability Accounting Standards Board (SASB). Unlike the broad-spectrum approach of GRI, SASB specializes in industry-specific reporting standards. This focused approach customizes reporting guidelines to the unique ESG considerations within specific industries. It empowers companies to concentrate on the metrics most pertinent to their sector, ensuring that disclosures directly address the principal sustainability issues facing their industry.

By embracing and conforming to these established ESG reporting standards and guidelines, companies position themselves to elevate their ESG reporting practices. This, in turn, leads to more
substantial and informative disclosures, enabling stakeholders to make well-informed decisions and fostering greater trust in corporate sustainability efforts. Ultimately, the adoption of these frameworks advances the broader movement towards responsible and transparent corporate governance. The industry-specific approach championed by SASB is shaping a new paradigm in ESG reporting. Companies that align with this approach are likely to find themselves at the forefront of transparency, responsibility, and stakeholder trust.

Dimensions of Sustainability Accounting Related to the SASB Sustainability Standards Board are including:

A. Human Capital: This element highlights the importance of viewing the company's workforce as crucial assets, essential for sustained success. It delves into enhancing worker efficiency, navigating labor interactions, ensuring the well-being and safety of employees, and fostering a culture of workplace safety.

B. The Environmental Dimension: This area focuses on a company's ecological footprint, either by depleting finite resources (e.g., water, minerals, diverse ecosystems) or emitting pollutants (into air, land, or water). Such actions could have repercussions on nature and, in turn, might impact the company's financial health and operational efficiency.

C. Social Capital: This facet centers on building and maintaining relationships with both inner and outer stakeholders, like clients, while also ensuring the well-being of local populations and staff members.

D. Business Model Innovation: This aspect pertains to the incorporation of ecological, societal, and employee-related concerns into the organization's value proposition. This includes recycling initiatives, novel production methods, and innovative product offerings.

E. Leadership and Governance: This dimension addresses issues potentially at odds with stakeholder interests, which might lead to possible liabilities. This encompasses areas such as risk management, operational integrity, combating corruption and bribery, and avoiding ethical dilemmas (Shahd Ali Sahib, 2023).

Multinational Enterprises (MNEs) operate in diverse regulatory and cultural landscapes, making their sustainability reporting complex and multifaceted. The Sustainability Accounting Standards Board (SASB) presents a streamlined approach for these MNEs by offering industry-specific guidelines that focus on the most material ESG issues pertinent to each industry. As MNEs have footprints in various sectors and regions, a consistent, standardized ESG reporting framework, such as the one SASB provides, allows for better comparability across subsidiaries and regions. Furthermore, adhering to SASB standards can enhance the credibility of MNE disclosures, as stakeholders can be assured that the reported metrics are both relevant and significant in a global context. For MNEs striving to achieve uniformity in ESG reporting amidst diverse operational
contexts, SASB's standardized yet flexible guidelines offer an optimal solution, enabling them to communicate ESG performance effectively and comparably across their global operations (Karst & Johnson, 2021).

The Sustainability Accounting Standards Board (SASB) standards fall under the voluntary category. This means that companies can choose whether or not to adopt SASB standards for their ESG (Environmental, Social, and Governance) reporting. SASB provides a framework for businesses to report sustainability information that is financially material to investors in a consistent and comparable format. The idea behind this voluntary approach is to offer companies a standardized method of disclosure that would be valuable to both the disclosing company and its stakeholders, particularly investors.

While SASB standards are voluntary, their adoption can be seen as a proactive response by companies to growing demands from investors, regulators, and other stakeholders for more consistent, comparable, and reliable ESG disclosures. Over time, as ESG reporting becomes more standardized and as investors and other stakeholders place greater emphasis on it, there might be regulatory pressures in various jurisdictions to mandate certain aspects of such reporting. However, as of 2022, the use of SASB standards remains a voluntary decision for companies.

4.5.3 legal standards and guidelines related to ESG reporting (e.g., GRI, SASB)

The Global Reporting Initiative (GRI) stands as an unwavering force in the domain of ESG reporting standards. It equips organizations with a universally acknowledged framework to comprehensively report on an extensive spectrum of ESG subjects, encompassing environmental adoption of GRI guidelines empowers companies to present a cohesive, standardized portrayal of their sustainability endeavors, facilitating not only intra-industry comparisons but also inter-sector and cross-regional assessments (GRI official website, 2022).

In parallel, the Sustainability Accounting Standards Board (SASB) assumes a pivotal role in the ESG reporting landscape. What sets SASB apart is its industry-specific focus. Rather than employing a one-size-fits-all approach, SASB customizes reporting standards to the nuanced ESG considerations within specific industries. This tailored methodology empowers companies to zero in on metrics most pertinent to their sector, ensuring that disclosures directly address the key sustainability issues faced by their industry (Shahd Ali Sahib, 2023)

By rigorously examining and adhering to these established ESG reporting standards and guidelines, companies go beyond regulatory compliance; they elevate the substance, relevance, and quality of their disclosures. This, in turn, empowers stakeholders to make well-informed decisions and fosters a deeper trust in corporate sustainability efforts. The adoption of these frameworks underscores a commitment to a culture of transparency, accountability, and ethically grounded corporate governance practices.

4.5.4 DVFA Committee on Non-Financials created guidelines for reporting on ESG

(DVFA) stands for Deutsche Vereinigung für Finanzanalyse und Asset Management. In English, it translates to the German Association for Financial Analysis and Asset Management. The
The DVFA Committee on Non-Financials, with endorsement from European Federation of Financial Analysts Societies (EFFAS), has established a framework for reporting Environmental, Social, and Governance (ESG) issues. This framework introduces a set of Key Performance Indicators (KPIs) to be used in analyzing corporate performance. These KPIs and topical areas are numbered, similar to the International Financial Reporting Standards (IFRS) standard, for easy referencing. Nine general topical areas applicable to all sectors are introduced, with five sectors having comprehensive ESGs and KPIs. The framework also provides foundational principles for ESG reporting, aiming to ensure data comparability and benchmark ability. The intention is not to introduce a new reporting system but to provide recommendations for integrating these KPIs into existing corporate reports.

1. Corporates should present data in a chronological sequence rather than merely showcasing individual data points for a specific timeframe.

2. To offer context, corporates should juxtapose individual data points with reference data, such as industry standards or peer comparisons.

3. It's advised that businesses present ESG metrics and their corresponding KPIs in a tabular design for ease of extraction and comparison.

4. The ESG functions as a baseline. From the provided list, specific KPIs should be selected as the primary metrics for disclosure.

5. All industries should disclose KPIs for universal ESGs. Alongside, industry-specific ESG metrics should be shared to highlight sector-relevant concerns. Corporates can introduce additional sector-centric ESGs and KPIs.

6. The ESG is the foundational element. The KPIs to be reported are to be selected from a predefined list.

7. Corporates are encouraged to share both specific data points and comparative benchmarks, which could be averages within the industry, peer data, or other external references, to contextualize their performance (EFFAS, 2009).

Companies are underscored by these principles. The proponents argue in favor of using a temporal framework for data representation, which entails examining data not in isolation but rather in relation to industry benchmarks or comparable measures from peers. The proposals emphasize the importance of Environmental, Social, and Governance (ESG) indicators, arguing for their organized and comparative display, which guarantees transparency and comparability across different sectors. The frequent reference to ESG also indicates the growing worldwide focus on sustainable and socially responsible corporate operations.
CHAPTER 5: Analysis of the ESG Rating Article of European Commission

There are similarities between ESG (Environmental, Social, and Governance) ratings and the SDG (Sustainable Development Goals) of the United Nations in terms of their shared emphasis on sustainable and responsible activities. ESG ratings are often used to assess the sustainability and social ramifications associated with investing in a company or enterprise. Conversely, the Sustainable Development Goals (SDGs) provide a more comprehensive framework established by the United Nations to tackle global concerns.

Figure 8. SDGs and ESG (Sætra, 2021)

5.1 ESG Rating European Commission Articles based on SDGs of UN (United Nation)

Article 1 - Regulatory Framework:

Establishes a comprehensive framework to regulate ESG rating activities, aiming to enhance credibility, transparency, and accuracy of ESG ratings. The goal is to protect consumer and investor interests, prevent greenwashing, and combat misinformation.

- This Article focuses on enhancing ESG rating transparency and preventing greenwashing, aligns with the United Nations Sustainable Development Goals (SDGs). It most directly resonates with Goal 12 (Responsible Consumption and Production) by promoting transparency in sustainable development actions. It also supports Goal 13 (Climate Action) by ensuring genuine efforts against climate change, Goal 16 (Peace, Justice, and Strong Institutions) through its emphasis on integrity and good governance, and Goal 17 (Partnerships for the Goals) by fostering a harmonious internal market. In essence, the regulation bolsters multiple SDGs by championing transparency, accountability, and sustainability in business practices.
Article 2 - Scope:

Applies to publicly disclosed ESG ratings provided to regulated financial entities within the Union. Certain exemptions include private ratings, internal ratings, raw data, and specific credit ratings.

- The article provides an overview of the legislation governing Environmental, Social, and Governance (ESG) ratings within the European Union (EU). These ratings serve to assess a company's sustainability practices and its broader influence on society. The aforementioned ratings are in accordance with the objectives set out by the United Nations Sustainable Development Goals (SDGs). ESG ratings pertain to Goal 12, which focuses on responsible consumption and production, Goal 13, which pertains to climate action, Goal 16, which emphasizes peace, justice, and strong institutions, and Goal 17, which underscores partnerships for sustainable development. The precise alignment, however, is contingent upon the particular methodology used in the ESG analyses.

Articles 3-11 - Definitions, Authorization, and Third Country Providers:

Defines key terms related to ESG ratings. Details the process for authorization of ESG rating providers within the Union and outlines conditions for third-country providers to operate.

Articles 13-16 - Register, General Principles, Separation of Business, Analysts and Employees:

Establishes a public register of authorized ESG rating providers. Sets out principles for independence, robust procedures, and resource allocation. Prohibits certain activities and defines rules for rating analysts and employees.

Articles 17-20 - Record-keeping, Complaints, Outsourcing, Exemptions:

Imposes record-keeping requirements for ESG rating activities. Mandates the establishment of a complaints-handling mechanism. Addresses outsourcing limitations and provides exemptions for small-scale providers.

Articles 21-24 - Methodology Disclosure, Independence, Conflicts of Interest:

Requires public disclosure of methodologies, models, and assumptions. Emphasizes independence and conflict avoidance, including governance arrangements and measures to manage conflicts related to ownership and control.
Article 25 - Fair Fees:

Mandates that fees charged by ESG rating providers must be fair, transparent, non-discriminatory, and based on actual costs. (“ESMA”) has authority to enforce compliance.

Article 26 - Non-Interference:

Prohibits ESMA, the Commission, and public authorities from meddling with ESG ratings or methodologies.

Article 27 - ESMA Guidelines and Reporting:

Demands ESMA to issue guidelines for cooperation, along with EBA and EIOPA. ESMA must also publish an annual report on the application of the Regulation, including market developments and third-country evaluations.

- The significance of Article 27 lies in its prioritization of the European Securities and Markets Authority (ESMA) as the primary body responsible for issuing guidelines. Furthermore, Article 27 underscores the importance of collaboration between ESMA and other entities such as the European Banking Authority (“EBA”) and European Insurance and Occupational Pensions Authority (“EIOPA”). Additionally, the requirement for ESMA to publish annual reports serves as a demonstration of the commitment to promoting transparency, accountability, and institutional effectiveness. This pledge is in direct accordance with the Sustainable Development Goal (SDG) 16 of the United Nations, specifically focusing on objectives 16.6 and 16.10. The significance of promoting strong and transparent institutions that operate with accountability is emphasized by Sustainable Development Goal 16. The primary focus of Article 27 is closely aligned with SDG 16 The official articulation of SDG 16 is as follows: To foster the advancement of peaceful and inclusive societies for the purpose of sustainable development, ensure universal access to justice for all individuals, and construct efficient, responsible, and inclusive institutions at all levels. In this study, we aim to investigate the effects of a particular drug on the growth of The Goal has a total of twelve distinct goals and twenty-three corresponding indicators (United Nation, 2022). However, it is important to acknowledge that the broader objective of ensuring effective regulation of environmental, social, and governance (ESG) ratings indirectly supports several other Sustainable Development Goals (SDGs) by promoting sustainable and ethical corporate practices.

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6 The European Securities and Markets Authority (ESMA)
7 The European Banking Authority.
8 The European Insurance and Occupational Pensions Authority (EIOPA)
Articles 30-32 - Requests, Investigations, On-Site Inspections:

Empowers ESMA to request information, conduct investigations, and perform on-site inspections related to ESG ratings. Provides the authority to ensure compliance and gather necessary information.

Article 33: Supervisory Measures by ESMA:

ESMA has the authority to penalize ESG rating providers if they fail to meet the regulation's obligations. The measures can range from revoking authorization, suspensions, to fines. The severity of the infraction determines which measure is taken, and any action by ESMA is publicly disclosed for transparency.

Article 34: Fines

If an ESG rating provider breaches the regulation, ESMA can impose fines. The amount can be up to 10% of the provider's annual net turnover. Factors like the nature of the violation, financial impact, and profits from the infringement help decide the fine's size.

Article 35: Periodic Penalty Payments

ESMA can impose daily penalties to ensure ESG rating providers address their violations or to make individuals provide necessary details or cooperate in investigations. The daily penalty is calculated based on the provider's or individual's average income, with a maximum limit of six months.

Article 36: Disclosure, Nature, Enforcement, and Allocation of Fines and Penalties:

ESMA will publicly disclose all fines and penalties, unless it might harm the financial markets or the involved parties. These penalties are administrative and are legally enforceable according to respective Member State rules. All collected funds go to the European Union's general budget.

Article 37: Procedural rules for taking supervisory measures and imposing fines

Whenever ESMA becomes aware of possible infringement related to the Regulation, it must nominate an independent investigation officer. This officer is responsible for conducting an inquiry, considering feedback from involved parties, and delivering findings to ESMA's Board of Supervisors. This officer has powers that include demanding information and carrying out on-site inspections. After an investigation, the individuals or entities under scrutiny are informed. Based on the findings, ESMA's Board of Supervisors can choose to implement supervisory measures or impose fines. The investigation officer does not participate in the decision-making processes. Specifics regarding the imposition of fines will be detailed further by the Commission through delegated acts.
**Article 38: Hearing of the persons subject to investigations**

Individuals or entities under investigation by ESMA are granted the right to be heard before any decisions are made. However, if there's an immediate threat to the financial system, ESMA can make provisional decisions. Throughout the investigation, those under inquiry have their defense rights respected. They are also given access to ESMA's records, though certain confidential details might be exempted.

**Article 39: Review by the Court of Justice**

The Court of Justice can review any decision made by ESMA concerning fines or penalties. Based on its review, the Court has the authority to adjust or nullify the penalties.

**Article 40: Cooperation and information exchange**

Member States' competent authorities and ESMA must cooperate with one another to ensure the Regulation is consistently and effectively applied. This cooperation entails the exchange of relevant information. ESMA will establish a centralized database for this purpose, where confidential information will be protected.

- Article 40 of the Regulation underscores the need of cooperation and information sharing between the competent authorities of Member States and the European Securities and Markets Authority (ESMA) in order to achieve a uniform and efficient implementation of the Regulation. The essay emphasizes the need of technology integration, transparency, and data safeguarding by calling for the establishment of a centralized database and highlighting the need to preserve sensitive information. The aforementioned attitude aligns well with the Sustainable Development Goal (SDG) 16 of the United Nations, specifically focusing on goals 16.6 and 16.10. These aims promote the establishment of responsible and transparent institutions and the guarantee of public access to information. Article 40 encapsulates the values and goals outlined in SDG 16, emphasizing collaboration and the sharing of information, hence promoting the establishment of robust and accountable institutional structures.

**Article 41: Obligation to provide information**

ESG rating agencies must provide ESMA and relevant competent authorities with any information necessary to ensure they're abiding by the requirements of this Regulation. This includes data regarding their methodologies, models, and key rating assumptions.

**Article 42: Handling of confidential information**

Any confidential information that ESMA or a competent authority receives in the course of their duties must be treated as such. This information cannot be disclosed without the express agreement
of the entity providing it, except in specific circumstances where it's deemed necessary for the public interest.

**Article 43: Notifications and suspension requests by competent authorities**

Should a Member State's competent authority detect any breaches of the Regulation, it must notify ESMA. If the infringement has a notable impact on investor protection or the stability of the financial system, the competent authority can ask ESMA to suspend the services of the ESG rating agency in violation. ESMA will then act accordingly based on this request.

- The significance of Article 43 of the Regulation lies in its emphasis on establishing a strong framework for monitoring and implementing corrective measures. In the event that an ESG rating agency violates the Regulation, it is required that the relevant authorities of Member States quickly inform the European Securities and Markets Authority (ESMA). Moreover, in cases where these breaches pose a significant risk to the safeguarding of investor interests or the stability of the financial system, it is possible to submit a formal request for the suspension of services provided by the non-compliant agency. The user's text demonstrates a watchful attitude that is in perfect alignment with the Sustainable Development Goal (SDG) 16 of the United Nations. Particularly, it resonates with goal 16.6, which emphasizes the promotion of efficient, responsible, and open institutions.

Article 43 places significant importance on the preservation of the integrity and trustworthiness of the financial system, aligning with the objectives of Sustainable Development Goal 16, which advocates for the establishment of robust and reliable institutional frameworks.

**Article 44: Professional secrecy**

Both ESMA and competent authorities, including their staff, are bound by professional secrecy. All information exchanged as part of this Regulation is deemed confidential, with some exceptions.

**Article 45: Amendment of prior legislations**

With the introduction of this Regulation, certain parts of previous EU legislations related to credit rating agencies will be amended to ensure consistency in the regulatory framework. This includes modifications to prevent overlaps or contradictions.

**Article 46: External strategy**

ESMA will develop an external strategy to promote this Regulation internationally. The aim is to foster global alignment with respect to ESG rating practices and to ensure that entities from outside the EU adhere to similar standards when operating within the Union.

Article 46 outlines the activity undertaken by ESMA to advocate for an external approach, with the objective of globally promoting and aligning the Regulation pertaining to ESG rating
standards. The scope of this initiative goes beyond intra-EU activities, as it aims to ensure that global companies adhere to the standards established by the European Union while conducting operations under its jurisdiction. The aggressive international outreach mentioned aligns well with the United Nations' Sustainable Development Goal (SDG) 17, particularly objective 17.16, which underscores the need of strengthening global relationships to promote sustainable development. Article 46 exemplifies the fundamental principles of SDG 17, which emphasizes the need for international cooperation and shared standards, aiming to build global unity and mutual progress.

Article 47: Committee procedure

The European Securities Committee assists the Commission. The roles and responsibilities of this committee are defined in existing EU regulations.

Article 48: Review clause

Three years after this Regulation becomes applicable, the Commission will review its practical application and impact. If necessary, the Commission will propose appropriate amendments to further enhance the robustness and reliability of the ESG ratings.

Article 49: Entry into force and application

This Regulation enters into force on the twentieth day following its publication in the Official Journal of the European Union. Its provisions will be applicable starting six months after that date.

Article 50: Transitional and final provisions

Existing ESG rating agencies must inform ESMA if they intend to continue operating and need to apply for authorization accordingly. Deadlines for application vary between large ESG rating agencies and smaller ones. The Commission is tasked with evaluating the Regulation's application after a specified period, and it will share its findings with the European Parliament and Council. This Regulation becomes effective 20 days post-publication and will be applied six months after its official entry into force (European Commission, 2023)

The objective of this case analysis and comparison of ESG ranking articles is to scrutinize the extent to which these laws align with the overarching goals of the Sustainable Development Goals (SDGs). At first glance, this might seem like an ambitious comparison. However, many studies aiming to evaluate correlations and the quality of adherence have shown that these concepts can be both quantitatively and qualitatively measured and juxtaposed against the standards set by these laws. In our analysis, we've chosen structural articles and demonstrated their alignment with the United Nations' broader goals. These alignments suggest that the foundational framework of these regulations, and their evolving trajectory, are in harmony with the progress of the SDGs.

Other articles detail the procedures and processes for ESG rating rules and are considered a subset of structural articles, as categorized on previous pages.
5.2. ESG Rating European Commission Articles Categorization

Legal studies have long been a focal point for language and semantic technologies due to their importance in governance and the challenges they pose for natural language processing (NLP). The EU has financially supported numerous research initiatives, including the (MIREL) Mining and Reasoning with Legal texts' project, to merge efforts addressing both these areas (Robaldo et al., 2019).

Categorizing by criteria has proven beneficial. It provides a structured framework that allows companies, including MNEs, to navigate the complexities of ESG and comply with regulatory standards across different geographies. The classification of ESG rating rules also assists in reviewing the vast amounts of data in environmental, social, and governmental regulatory documents to extract relevant rules for compliance. This approach enhances efficiency, ensuring that companies can swiftly determine their necessary compliance actions. A structured framework or classification system enables companies to navigate these complexities effectively, ensuring they meet expectations and tackle challenges. It also offers a means for continuous compliance testing and feedback on their performance.

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<tr>
<th>Category</th>
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<tr>
<td>Objective &amp; Purpose</td>
<td>1</td>
<td>Integrity, transparency, responsibility, governance, independence of ESG - Prevention of greenwashing, social-washing, misinformation - Smooth market function, consumer &amp; investor protection</td>
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<td>- Private ESG ratings, internal ESG ratings, raw ESG data without rating, etc.</td>
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<td>Definitional Framework</td>
<td>ESG ratings and their provision within the Union context.</td>
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<tr>
<td>Article 5</td>
<td>Objective &amp; Purpose</td>
<td>Establish the application process for authorization to provide ESG ratings.</td>
</tr>
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<td></td>
<td>Specific Entity Definitions</td>
<td>Legal persons within the Union applying for authorization.</td>
</tr>
<tr>
<td></td>
<td>Other Definitions</td>
<td>Application details to be contained in Annex I; draft regulatory technical standards.</td>
</tr>
<tr>
<td>Article 6</td>
<td>Objective &amp; Purpose</td>
<td>Define ESMA's examination and assessment procedure for the application.</td>
</tr>
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<td></td>
<td>Specific Entity Definitions</td>
<td>Legal persons applying for ESG rating provision.</td>
</tr>
<tr>
<td></td>
<td>Other Definitions</td>
<td>Timeframes for ESMA's assessment; conditions for extending assessment period.</td>
</tr>
<tr>
<td>Article 7</td>
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<td>Detail ESMA's decision-making process after examining the application.</td>
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<tr>
<td>Article</td>
<td>Group Classification</td>
<td>ESG rating providers applying for authorization.</td>
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<tr>
<td></td>
<td>Other Definitions</td>
<td>Territorial effectiveness of the decision across the Union.</td>
</tr>
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<td>Objective &amp; Purpose</td>
<td>Specify scenarios for withdrawing or suspending the authorization.</td>
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<td>Article 8</td>
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<td>Authorized ESG rating providers within the Union.</td>
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<td>Other Definitions</td>
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<td>Article 9</td>
<td>Objective &amp; Purpose</td>
<td>Set out conditions for third-country ESG rating providers to offer services in the Union.</td>
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<td>Primary Application</td>
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<td>Specific Entity Definitions</td>
<td>Legal entities from third countries aiming to provide ESG ratings in the Union.</td>
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<td></td>
<td>Other Definitions</td>
<td>Equivalence decision; conditions for a third country’s legal framework and supervisory practices; cooperation arrangements with third country authorities.</td>
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The categorization of 9 Article ESG rating out of 50 Article are divided into, Primary and purpose, Specific Entity Definition, Primary application and other Definition which are more explaining subject matters scope and definitions this method of categorization based on the structure of ESG rating and in general explanations try to show the main points of purpose of Articles.

In these articles, key points have been recognized. Based on them and definitions, they are identified as definitions related to the purposes.
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<th>Key Points/Requirements</th>
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<tbody>
<tr>
<td><strong>Article 10: Endorsement of ESG ratings by a third country ESG rating provider</strong></td>
<td></td>
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</tbody>
</table>
| 1. Endorsement Conditions | - Application to ESMA  
- Ensuring requirements are as stringent as this Regulation - Expertise to monitor the third country ESG rating provider  
- Objective reason for endorsement - Provide necessary information to ESMA  
- Cooperation between ESMA and third country authority |
<p>| 2. Application Process | Provide necessary information for ESMA to evaluate |
| 3. ESMA's Examination | 90 working days decision window |
| 4. Endorsed ESG Ratings | ESG rating considered as provided by endorsing provider |
| 5. Responsibility | ESG rating provider is fully responsible for the endorsed rating |
| 6. Cease Endorsement | ESMA can stop the endorsement if conditions are not met |
| <strong>Article 11: Recognition of third country ESG rating providers</strong> | |
| 1. Recognition Criteria | Criteria for third country providers to be recognized |
| 2. Application Process | Requirements and process for recognition |
| 3. Legal Representation | Requirement for a legal representative in the Union |
| 4. Information Requirement | Necessary information to be provided to ESMA |
| 5. ESMA's Recognition | Conditions for ESMA's recognition |
| 6. Prevention of Recognition | No recognition if ESMA's supervisory functions are prevented |
| 7. Actions by ESMA | Fines, suspension, or withdrawal of recognition |</p>
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<th>8. Regulatory Technical Standards</th>
<th>Development by ESMA for the application process</th>
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<td>Cooperation arrangement should ensure professional secrecy</td>
</tr>
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<td>2. Transfer of Personal Data</td>
<td>Application of Regulation (EU) 2018/1725</td>
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<td>Article 13: Register and accessibility of information</td>
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<tr>
<td>1. ESMA's Register</td>
<td>Details of all ESG rating providers</td>
</tr>
<tr>
<td>2. Public Accessibility</td>
<td>Register to be accessible publicly on ESMA's website</td>
</tr>
<tr>
<td>3. Information on ESAP</td>
<td>Submission of public information to ESAP⁹</td>
</tr>
<tr>
<td>4. Information Requirements</td>
<td>Data format, accompanied metadata, and other specifics</td>
</tr>
<tr>
<td>5. Legal Entity Identifier</td>
<td>Acquisition of identifier for ESG rating provider</td>
</tr>
<tr>
<td>6. Collection Body</td>
<td>ESMA is the collection body for ESAP</td>
</tr>
<tr>
<td>7. Accessibility on ESAP</td>
<td>Information to be made accessible on ESAP</td>
</tr>
<tr>
<td>8. Implementing Technical Standards</td>
<td>Development by ESMA for data collection and administration</td>
</tr>
<tr>
<td>9. Metadata Guidelines</td>
<td>Guidelines by ESMA for correct metadata submission</td>
</tr>
</tbody>
</table>

⁹ European Single Access Point is Single point of access providing centralized electronic access to information relevant to financial markets (European Commission, 2021).
<table>
<thead>
<tr>
<th>Article Number</th>
<th>Main Focus</th>
<th>Specific Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 14</td>
<td>General Principles</td>
<td>1. Independence from political/economic influences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Rules for compliance with Regulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Adequate systems/resources for compliance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Policies for ratings based on thorough analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Ensure business interests don’t impair independence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6. Administrative/accounting procedures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7. Systematic rating methodologies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>8. Annual review of methodologies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9. Annual evaluation of systems/resources/procedures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10. Permanent oversight function</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11. Ratings based on reliable sources</td>
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<tr>
<td></td>
<td></td>
<td>12. No disclosure of trade secrets</td>
</tr>
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<td></td>
<td></td>
<td>13. Changes to ratings per methodologies</td>
</tr>
<tr>
<td>Article 15</td>
<td>Separation of Business/Activities</td>
<td>1. List of prohibited activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Ensure no conflicts of interest</td>
</tr>
</tbody>
</table>
| Article 16 | Rating Analysts and Employees | 1. Ensure necessary knowledge/experience  
2. No fee negotiations with rated entities  
3. Restrictions on financial transactions  
4. Restrictions due to conflicts of interest  
5. Protect property; no sharing of confidential info  
6. Reporting illegal conduct  
7. Review departing analysts joining rated entities  
8. Restrictions on taking key positions in rated entities |
| Article 17 | Record-keeping | 1. Recording of ESG rating activities  
2. Minimum five-year retention |
| Article 18 | Complaints-handling Mechanism | 1. Publish complaint procedures  
2. Timely and fair complaint investigation |
| Article 19 | Outsourcing | 1. Outsourcing restrictions  
2. Responsibility despite outsourcing  
3. Disclosure responsibility despite outsourcing |
| Article 20 | Exemptions on Governance | 1. Conditions for ESMA to grant exemptions  
2. At least one provider in a group not exempted |
|-----------|-------------------------|----------------------------------------------------------------------------------|
| Article 21 | Disclosure to Subscribers & Rated Entities | 1. Disclosure on website  
2. ESMA to develop detailed standards  
3. Deadline for ESMA submission to the Commission  
4. Commission's power to adopt standards |
| Article 22 | Disclosure to Subscribers & Rated Entities | 1. Minimum information requirement  
2. ESMA to develop detailed standards  
3. Deadline for ESMA submission to the Commission  
4. Commission's power to adopt standards |
| Article 23 | Independence & Conflicts of Interest | 1. Robust governance arrangements  
2. Ensure no conflicts of interest affect ratings  
3. ESMA's power in case of risk of conflict  
4. Disclosure of conflicts to ESMA  
5. Policies, procedures, and arrangements for managing conflicts  
6. Annual review of potential conflicts |
| Article 24 | Management of Conflicts from Employees | 1. Qualifications and behavior of employees involved in ESG rating  
2. Specific internal control procedures |
| Article 25 | Fair & Transparent Treatment of Users | 1. Fair, cost-based fee structure  
2. ESMA's supervisory and punitive powers |
| Article 26 | Non-interference Principle | ESMA & public authorities to not interfere with rating content or methodologies |
| Article 27 | Role of ESMA | 1. Issue & update cooperation guidelines  
2. Guidelines on endorsement regime  
3. Publish annual report on regulation application  
4. Cooperate & consult with EBA and EIOPA |
| Article 28 | Competent Authorities | 1. Member States to designate authorities  
2. Adequate staffing of authorities |
| Article 29 | Power Limitations | No power to require legally privileged information |
| Article 30 | Requests for Information | 1. ESMA's right to request information  
2. Protocol for simple request  
3. Protocol for required request by decision  
4. Responsibility for providing requested information  
5. ESMA to send copy of request to relevant Member State |
<table>
<thead>
<tr>
<th>Article</th>
<th>Section/Subsection</th>
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</tr>
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<tbody>
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<td>Article 31</td>
<td>General investigations</td>
<td>ESMA may conduct necessary investigations of persons referred to in Article 30(1). This includes examining records, obtaining copies, summoning individuals, interviewing, and requesting data traffic records.</td>
</tr>
<tr>
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<td></td>
<td>Officials must have written authorization, specifying investigation purpose and subject. There are penalties for non-compliance and fines for misleading information.</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>Persons from Article 30(1) must comply with ESMA investigations. Legal remedies and rights to review are specified.</td>
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<td>ESMA must inform the competent authority in a Member State before the investigation. That authority may assist and attend the investigation.</td>
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<td></td>
<td>If records require judicial authorization based on national rules, it must be applied for. The national judicial authority will check ESMA's decision for authenticity and proportionality without reviewing the necessity of the investigation.</td>
</tr>
<tr>
<td>Article 32</td>
<td>On-site inspections</td>
<td>ESMA can conduct on-site inspections at business premises. Unannounced inspections are possible if needed for proper conduct.</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>Authorized officials can enter premises, access materials, and seal areas. Written authorization is required, detailing the inspection purpose and potential penalties. Notice must be given to the competent authority of the Member State.</td>
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<td></td>
<td>Persons from Article 30(1) must comply with on-site inspections. Specifics of the inspection, penalties, legal remedies, and rights for review are detailed.</td>
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<tr>
<td>5-7</td>
<td></td>
<td>Officials of the Member State must assist ESMA officials if requested. ESMA can require competent authorities to carry out investigations on its behalf. Local authorities should assist ESMA officials in overcoming opposition to an inspection.</td>
</tr>
<tr>
<td>8 &amp; 9</td>
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If ESMA finds an ESG rating provider not compliant with its obligations, various supervisory measures can be taken, including withdrawal of authorization, fines, or public notices.

The measures taken should be effective, proportionate, and dissuasive.

ESMA will consider various criteria when taking supervisory measures, including the nature of the infringement, financial implications, intent, and cooperation level.

ESMA will notify and publish any action taken against an infringing entity, providing details of appeal rights and other relevant information.

<table>
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<th>Supervisory measures by ESMA</th>
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<tbody>
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### Article 33 - Supervisory measures by ESMA

If ESMA finds an ESG rating provider not compliant with its obligations, various supervisory measures can be taken, including withdrawal of authorization, fines, or public notices.

The measures taken should be effective, proportionate, and dissuasive.

ESMA will consider various criteria when taking supervisory measures, including the nature of the infringement, financial implications, intent, and cooperation level.

ESMA will notify and publish any action taken against an infringing entity, providing details of appeal rights and other relevant information.

### Article 34 - Fines

- Maximum fine: 10% of net turnover.
- Fines based on consolidated accounts for parent/subsidiary companies.
- Criteria in Article 33(3) should be considered.
- Fine should at least equal financial benefit from the infringement.
- Only higher fine applies for multiple infringements.

### Article 35 - Periodic penalty payments

Daily penalties for non-compliance with a decision. Effective and proportionate penalties. Maximum penalty period: 6 months.

### Article 36 - Disclosure & Allocation of fines and penalties

Public disclosure of fines/penalties. Administrative nature.
<p>| | | |</p>
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</thead>
</table>
| 37 | Procedural rules | - Independent investigation officer for suspected infringements.  
- Rights of defense respected.  
- ESMA refers criminal cases to national authorities. |
| 38 | Hearing of the persons subject to investigation | - Persons have the right to be heard.  
- Access to ESMA's file except for confidential information. |
| 39 | Review by the Court of Justice | - Court has unlimited jurisdiction over fines/penalties.  
- Can annul, reduce, or increase fines/penalties. |
| 40 | Supervisory fees | - Fees charged to ESG rating providers.  
- Fees cover ESMA's expenditure.  
Individual fee proportional to net turnover. |
<table>
<thead>
<tr>
<th>Articles</th>
<th>Focus</th>
<th>Description</th>
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<tbody>
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<td>Article 41</td>
<td>Delegation &amp; Supervision</td>
<td>ESMA's ability to delegate specific supervisory tasks to competent authorities of Member States, conditions for such delegation, and revocation process.</td>
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<td>Article 42</td>
<td>Information Exchange</td>
<td>Immediate provision of required information between ESMA and competent authorities.</td>
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<td>Article 43</td>
<td>Notifications &amp; Suspension Requests</td>
<td>Process for competent authorities to notify ESMA of regulation infringements and ESMA's subsequent actions.</td>
</tr>
<tr>
<td>Article 43</td>
<td>Infringements &amp; Actions</td>
<td>Competent authorities inform ESMA of regulation infringements, and ESMA's subsequent actions including potential suspension requests.</td>
</tr>
<tr>
<td>Article 44</td>
<td>Professional Secrecy</td>
<td>Obligation of professional secrecy for ESMA, competent authorities, and associated personnel. Conditions for information disclosure.</td>
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<tr>
<td>Article</td>
<td>Focus</td>
<td>Description</td>
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<tr>
<td>Article 45</td>
<td>Delegation &amp; Objections</td>
<td>Outlines the process for the adoption, objection, and revocation of delegated acts by the Commission.</td>
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<td>Article 46</td>
<td>Annex Amendments</td>
<td>Empowers the Commission to amend the Annexes through delegated acts in line with Article 45.</td>
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<td>Article 47</td>
<td>Committee Procedure</td>
<td>Details the committee to assist the Commission and its role under Regulation (EU) No 182/2011.</td>
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<td>Article 49</td>
<td>Review</td>
<td>Stipulates the Commission's responsibility to evaluate and report on the regulation's application, and potential legislative amendment proposals.</td>
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<td>Article 50</td>
<td>Entry &amp; Application</td>
<td>Describes the regulation's entry into force and application timelines.</td>
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<td>-----------</td>
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<td>---------------------------------------------------------------</td>
</tr>
</tbody>
</table>

From Articles 10-30, the provisions are detailed, and the categories are related to each main point section with its key points. From Articles 31-33, details about ESMA's key provisions and categories concerning general investigation and the key points of provision are presented. Article 32 focuses on on-site inspection, while Article 33 is related to supervisory measures by ESMA. Articles 34-50 have their specific focus areas and their key points.

This method of categorization represents the original form of ESG rating rules. The different categories in this process highlight the necessity of retaining the original form of the ESG rating rules. Additionally, this condensed form provides a clearer understanding of the key points. As mentioned, for any compliance investigation, this form of categorization can be useful.
CHAPTER 6. Conclusion

This thesis undertakes a comprehensive examination of the complex relationship between Environmental, Social, Governance (ESG) principles, Corporate Social Responsibility (CSR), legal frameworks, global value chains, and international agreements that regulate the behavior of multinational enterprises (MNEs) in today's business environment. Every chapter in this work has been a cognitive journey, characterized by a gradual increase in intellectual understanding. The culmination of these individual chapters results in a comprehensive overview of the subject matter, providing a wide-ranging and comprehensive perspective.

In Chapter 1, our academic journey started with a formal introduction to the ongoing transformation of the global landscape, characterized by a progressive trend towards sustainability, transparency, and ethical conduct in the realm of business. The statement effectively highlights the increasing importance of environmental, social, and governance (ESG) factors in the decision-making processes of organizations. This shift is not just motivated by legislative obligations, but also by the strong demand from conscientious investors seeking morally upright investment opportunities. Simultaneously, it has emphasized how CSR has metamorphosed into a strategic fulcrum for MNEs, with the power to sculpt their public image and produce long-term profitability.

Chapter 2 introduced us to the complex relationship between environmental, social, and governance (ESG) factors and the extensive network of Global Value Chains (GVCs). The aforementioned analysis revealed the emerging terrain of environmental, social, and governance (ESG) factors in the financial sector, with the European Union taking the lead in developing regulatory frameworks. The chapter provided an overview of the complexity involved in integrating environmental, social, and governance (ESG) factors into the strategy framework of multinational enterprises (MNEs). It emphasized the importance of international collaboration and the exchange of information in this process. The text explores the growing trend of ESG investment, which involves the proliferation of financial products specifically designed to cater to the preferences of ESG-conscious investors. Furthermore, in Chapter 2, the study revealed the intricate network of relationships that support environmental, social, and governance (ESG) practices in the field of finance. It also examined the significance of international labor standards and the potential consequences of trade liberalization and regional trade agreements on rules governing global value chains (GVCs). The discourse reached its pinnacle with a fervent call for transparency and traceability as fundamental components in
addressing risks arising from environmental, social, and governance (ESG) factors, while also fostering trust among the esteemed participants of contemporary business.

In Chapter 3, the intricate realm of international agreements and the legal structures that regulate the actions of large multinational corporations were explored. Our investigation has primarily focused on the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises pertaining to Responsible Business Conduct. Although lacking legal enforceability, these standards possess significant impact due to their strong adherence to worldwide norms and exemplary best practices. These aspects include a wide range of areas, including human rights, labor standards, environmental stewardship, and anti-corruption efforts. Chapter 3 explicated that the purpose of these standards is not to override national legislations, but rather to align with them, therefore augmenting the moral framework that governs the activities of multinational enterprises. They promote alignment with global ideals, therefore stimulating progress in the areas of economy, environment, and society. Furthermore, they advocate for fair and transparent methods of resolving disputes, which in turn promotes cooperation between companies and host governments.

However, our investigation has not hesitated to discover significant problems and gaps in the effective application of these standards. The existence of gender imbalances and dangers to public spaces has been acknowledged, and the National Contact Point (NCP) mechanism, which was designed to promote adherence to guidelines, has emerged as both a successful invention and a difficulty that requires more efficient usage.

Chapter 3 emphasizes the significant impact of the OECD Guidelines on the ethical landscape in which multinational enterprises operate. While lacking legal enforceability, these criteria have evolved into a guiding principle for ethical business behavior, emphasizing the need to adhere to global standards. The issues observed underscore the dynamic nature of global business ethics and the continual struggle necessary to traverse the complex world of multinational firms appropriately.

Chapter 4 serves as a significant contribution, delving into the intricate network of legal structures, corporate governance models, and the domain of Environmental, Social, and Governance (ESG) reporting criteria within the sphere of international business. Multinational enterprises (MNEs) are confronted with the complex fabric of the global business environment, where these factors play a significant influence
in shaping their strategies and operations. Our journey began by examining the significant impacts of the Deepwater Horizon disaster, which serves as a poignant reminder of the crucial responsibility of host countries to enforce regulatory frameworks and ensure multinational enterprises are held responsible for their environmental violations. This emphasizes the fundamental premise that the preservation of the environment should not be compromised, and it is imperative to uphold this value.

Th environment should not be put at risk, and it is the responsibility of the countrys hosting activities to protect the environmental rights of their population.

Chapter explores the highest level of legal hazards and the strategic implementation of reputation management as a means for multinational enterprises (MNEs) to address these challenges. This is achieved by comprehensive compliance processes, diligent due diligence efforts, and meticulous adherence to legislation in the host country. Stakeholder involvement has evolved as a prominent method to mitigate legal consequences and maintain a pristine business image.

Within the vast realms of mergers and acquisitions (M&A) and Foreign Direct Investment (FDI), we have explored the significance of doing thorough due diligence, navigating the complex network of regulatory clearances, and recognizing the growing impact of environmental, social, and governance (ESG) factors. The Sustainability Accounting Standards Board (SASB) has gained recognition for its pioneering efforts in providing industry-specific rules that facilitate multinational enterprises (MNEs) in reporting on environmental, social, and governance (ESG) issues relevant to their respective sectors. The uniformity and capacity to make meaningful comparisons across different subsidiaries and geographical locations enhances the reliability of multinational enterprise disclosures.

Concurrently, we emphasized the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) as significant contributors within the realm of environmental, social, and governance (ESG) reporting frameworks. The Global Reporting Initiative (GRI) provides a comprehensive framework that covers a broad range of environmental, social, and governance (ESG) aspects. This framework enables consistent reporting across many sectors and geographical locations. The sector-centric approach of SASB enables enterprises to customize their disclosures in order to effectively address sustainability challenges relevant to their respective sectors. The voluntary nature of these standards aligns with the proactive approach used by corporations to meet the increasing expectations
of investors and regulators for consistent, comparable, and trustworthy disclosures related to environmental, social, and governance (ESG) factors. The use of these frameworks indicates a dedication to promoting openness, accountability, and morally grounded principles of corporate governance.

The DVFA Committee on Non-Financials has recently introduced a comprehensive framework for the disclosure of environmental, social, and governance (ESG) issues. This framework places significant emphasis on Key Performance Indicators (KPIs) and thematic areas. The suggestions put out by the authors emphasize the need of ensuring data comparability and benchmarking. They stress the need to consider the context of data points and organize them in a coherent temporal order.

this chapter provided a comprehensive overview of the legal and environmental, social, and governance (ESG) reporting landscape within the realm of international business. The statement emphasized the crucial significance of host countries, the need of thorough and diligent research, and the usefulness of reporting criteria particular to the sector. Mastering the complexities of these convoluted waterways is essential for multinational enterprises (MNEs) that are dedicated to upholding responsible and transparent practices within a highly interconnected global environment.

In Chapter 5, an in-depth examination was conducted on the European Commission's ESG Rating Articles, with a particular focus on their alignment with the Sustainable Development Goals (SDGs) set out by the United Nations. This chapter aimed to unravel the intricate web of ideas and concepts surrounding these topics, offering a comprehensive and detailed study. The observed phenomenon highlighted a strong correlation between the legal framework and the global aspirations outlined in the Sustainable Development Goals (SDGs), emphasizing the European Commission's unwavering commitment to fostering. Also, in this chapter the categorization of ESG rating Rules represents a useful form of Articles and provisions.
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