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## **THE EVOLVING LANDSCAPE OF ESG RATINGS: A CRITICAL EXAMINATION OF THEIR ROLE IN PROMOTING SUSTAINABILITY**

### **Abstract:**

*Environmental, Social, and Governance (ESG) metrics have become increasingly influential in shaping corporate sustainability strategies, influencing firm valuation, and guiding investor decisions. This paper synthesizes insights from a range of academic studies focusing on ESG indicators, ratings, and their impact on performance, aiming to provide a comprehensive analysis of the role of ESG frameworks in fostering corporate sustainability and promoting a circular economy<sup>5</sup>. By examining the theoretical underpinnings and empirical evidence, this work underscores the potential of robust ESG practices to drive corporate sustainability, societal progress, and the advancement of circular economy principles. The study specifically investigates the impact of the social pillar of ESG practices on organizational sustainability through a systematic literature review. While the analysis reveals a growing investor interest in ESG, often driven by financial value, it also identifies a disproportionate focus on the environmental and governance pillars, with the social dimension, particularly concerning diversity and inclusion, receiving less attention. Significant gaps and a lack of academic consensus on the impact of ESG practices highlight the need for further research to enhance understanding and facilitate more effective implementation of ESG frameworks for improved organizational sustainability.*

**Key words:** ESG rating, circular economy, sustainability

**JEL classification:** Q010

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## Introduction

Recent global events, including natural disasters and the COVID-19 pandemic, have underscored a societal shift towards values and principles centered on sustainability. This shift is reflected in investment patterns and management practices within organizations that increasingly recognize sustainability as an intrinsic and essential business value, permeating all aspects of their operations. ESG frameworks play a crucial role in shaping organizational interactions with society, promoting respect for human rights and driving the strategic development of products, services, and solutions that benefit employees, consumers, and society at large.<sup>6</sup>

ESG principles are closely aligned with the UN's 17 Sustainable Development Goals (SDGs), reflecting practices for sustainable development that generate value within organizations.<sup>7</sup> The SDGs, however, transcend organizational boundaries, representing global commitments from diverse actors, including governments, civil society, and businesses. ESG adoption is becoming fundamental as stakeholders, including collaborators, customers, and investors, prioritize engagement with companies that demonstrate a commitment not only to profit maximization but also to the sustainability and development of both their organizations and the planet<sup>8</sup>. Despite the acknowledged importance of social issues, research indicates that the social pillar of ESG often receives less attention in corporate strategy, frequently limited to inclusion and diversity programs.<sup>9</sup> This is a critical oversight, as human capital represents the true wealth of organizations, driving performance and profitability. Without a focus on people, the very existence of consumers, organizations, and even a viable environment is called into question.

This disparity in research focus across ESG pillars is a significant concern, with studies disproportionately concentrating on environmental, financial, and governance practices, while the social dimension, despite its crucial role, remains comparatively under-explored.<sup>10</sup> The increasing urgency of environmental degradation, social inequality, and corporate governance failures

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6<https://www.ibm.com/think/topics/esg-frameworks>

7<https://globalwellnessinstitute.org/global-wellness-institute-blog/2024/09/13/supporting-un-17-sustainable-development-goals-sdgs-initiative-trends-for-2024/>

8<https://www.undp.org/sdg-accelerator/business-and-sdgs>

9<https://transformacy.co.uk/articles/why-the-social-and-governance-in-esg-are-just-as-important-as-the-environment#:~:text=Despite%20the%20importance%20of%20the,attention%20than%20the%20E%20pillar.>

10 Ribeiro do Amaral, Melissa & Willerding, Inara & Lapolli, Édis. (2023). ESG and sustainability: the impact of the pillar social: ESG e sustentabilidade: o impacto do pilar social. Concilium. 23. 186-199. 10.53660/CLM-1643-23J43.

has catalysed the adoption of ESG frameworks by businesses and investors. Since its inception in the early 2000s, ESG has evolved into a multifaceted metric that influences firm operations, stakeholder decisions, and investment outcomes. Developing a comprehensive set of indicators that accurately capture the full spectrum of sustainability efforts, balancing environmental, social, and governance concerns, presents a significant challenge. This limitation further complicates the use of such indicators as motivational tools for achieving sustainability goals. While extensive literature exists examining the significance of ESG ratings in various contexts, questions persist regarding their applicability and relevance across all business activities. This study, through a comprehensive literature review, aims to clarify the role of ESG ratings in promoting responsible corporate behaviour and their implications across different sectors. Ultimately, the paper seeks to provide insights into how companies can better integrate ESG considerations into their operational strategies, thereby enhancing their contributions to sustainable development and societal well-being.<sup>11</sup>

As the importance of human rights in the workplace gains prominence, companies are compelled to evaluate workforce rights and the social impact of their operations on local communities and nations.<sup>12</sup> Effectively managing both social responsibility and sustainable business practices has become a cornerstone of corporate governance. Divergence in ESG ratings is primarily attributable to variations in the metrics and data employed by different rating agencies, with measurement divergence being the key contributing factor. This disagreement extends beyond mere definitions and reflects fundamental differences in data assessment methodologies. This divergence highlights the critical need for careful consideration of the validity of data and metrics used by researchers and firms relying on ESG ratings. To mitigate the impact of rating divergence, companies should proactively engage with rating agencies to establish appropriate metrics, ensure data transparency and accessibility, and strive for greater transparency in rating methodologies.<sup>13</sup>

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11 Li, Duruo. (2025). The Impact of ESG Ratings on Corporate Social Responsibility Across Regions and Industries. *Advances in Economics, Management and Political Sciences*. 151. 161-167. 10.54254/2754-1169/2024.19421.

12 <https://www.ilo.org/resource/other/ilo-helpdesk-business-and-labour-dimension-human-rights-due-diligence>

13 <https://www.iriscarbon.com/key-findings-from-a-study-on-the-divergence-of-esg-ratings/>

## 1. Theoretical Framework of ESG Indicators and Ratings

The Earth faces unprecedented climate and social challenges, with scientific evidence on climate change becoming increasingly alarming<sup>14</sup>. As the recognition grows that these challenges originate from the industrial era, there is a growing demand to transform the capitalist system to acknowledge and address these critical issues. Academics, managers, and investors require a framework for evaluating businesses across diverse criteria and classifying them as socially responsible. The process of evaluating climate and social issues is complex. The measurement from each of the environmental, social, and governance pillars is aggregated into ESG scores, providing a single metric that represents organizational performance on the underlying issues. Scholars have adopted ESG scores as a tool for measuring sustainability or evaluating a business's consideration of ESG factors.<sup>15</sup>

Private commercial firms, serving portfolio managers and other investors, utilize both tangible and intangible data to construct ESG scores, generating data that meets investor needs. Organizations undergoing ESG scoring or updates employ self-reporting metrics, which are then audited by independent firms. The growing popularity of ESG scores stems from the expectation that responsible businesses will thrive in the future, based on the historical performance of responsible investment strategies. These scores also provide a mechanism for differentiating between responsible and irresponsible businesses, highlighting those that are actively addressing ESG challenges. Primarily, ESG scores represent a reduction in long-term investment risk by mitigating the potential negative impacts of global warming and other environmental or social issues on profitability.<sup>16</sup>

In recent decades, ESG has garnered significant attention from researchers, governments, and the corporate sector globally, following guidelines from international organizations like the United Nations.<sup>17</sup> The social pillar of ESG, however, has received less attention in scientific and policy literature compared to the environmental and governance pillars. This disparity is attributed to an approach that prioritizes reconciling environmental and economic concerns.

<sup>14</sup><https://science.nasa.gov/climate-change/evidence/#:~:text=There%20is%20unequivocal%20evidence%20that,activity%20is%20the%20principal%20cause>.

<sup>15</sup> Clément, Alexandre, Élisabeth Robinot, and Léo Trespeuch. 2022. "Improving ESG Scores with Sustainability Concepts" *Sustainability* 14, no. 20: 13154. <https://doi.org/10.3390/su142013154>

<sup>16</sup> Ibidem

<sup>17</sup>[https://scc-ccn.ca/resources/news/international-guidance-launched-support-organizations-navigating-esg-challenges#:~:text=With%20ESG%20regulations%20reportedly%20having,Directive%20\(CSRD\)%2C%20the%20UK's](https://scc-ccn.ca/resources/news/international-guidance-launched-support-organizations-navigating-esg-challenges#:~:text=With%20ESG%20regulations%20reportedly%20having,Directive%20(CSRD)%2C%20the%20UK's)

Fundamental concepts in sustainability, ESG performance, and disclosure relate to how companies manage their environmental, governance, and social obligations towards stakeholders. It is important to recognize that these concepts are distinct from one another.<sup>18</sup>

Another challenge lies in the nature of ESG data. The environmental, social, and governance dimensions are inherently different. While environmental data tend to be more quantitative and standardized, social and governance data are often qualitative and rooted in social sciences, varying across nations and cultures. The increasing investor focus on financial value has further fuelled the growing interest in ESG data. Organizations are motivated to improve ESG performance when they are financially rewarded, as evidenced by the significant positive correlation between ESG and corporate profitability.<sup>19</sup>

ESG ratings assess the sustainability profile of a company or financial instrument by analysing its societal and environmental impact, as well as its exposure to sustainability-related risks. These ratings play an increasingly important role in shaping capital markets and building investor confidence in sustainable investment products.<sup>20</sup> New regulations aim to enhance the reliability and comparability of ESG ratings by improving the transparency and integrity of rating providers' operations and addressing potential conflicts of interest.

ESG ratings are a type of score assigned to a company by rating agencies, evaluating performance across three key areas: Environmental (impact on the environment), Social (treatment of employees, suppliers, and communities), and Governance (management structure, leadership, and board diversity). ESG ratings offer investors a simplified way to incorporate sustainability factors into investment decisions. Traditional financial metrics do not always capture long-term risks and opportunities related to environmental and social issues. ESG ratings help bridge this gap. While ESG ratings are a relatively new concept, and challenges remain, such as the lack of standardized reporting practices, their importance in sustainable investing is expected to grow.<sup>21</sup>

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18 Ribeiro do Amaral, Melissa & Willerding, Inara & Lapolli, Édis. (2023). ESG and sustainability: the impact of the pillar social: ESG e sustentabilidade: o impacto do pilar social. *Concilium*. 23. 186-199. 10.53660/CLM-1643-23J43.

19 Li Qingwen , Tang Waifan , Li Zhaobin, "ESG systems and financial performance in industries with significant environmental impact: a comprehensive analysis", *Frontiers in Sustainability*, Vol 5, 2024, <https://www.frontiersin.org/journals/sustainability/articles/10.3389/frsus.2024.1454822> DOI=10.3389/frsus.2024.1454822;

20 <https://plana.earth/academy/esg-rating#:~:text=and%20ethical%20practices.-,A%20clear%20definition%20of%20ESG%20rating,and%20governance%20risks%20and%20opportunities>.

21 <https://www.pwc.com/gx/en/news-room/press-releases/2022/awm-revolution-2022-report.html>

Under new regulations, EU-based ESG rating providers must be authorized and supervised by the European Securities and Markets Authority (ESMA). They are required to meet transparency standards, particularly regarding methodologies and information sources. Non-EU providers must have their ratings endorsed by an EU-authorized provider, meet specific recognition criteria, or be included in the EU registry of ESG rating providers through an equivalence decision. To prevent conflicts of interest, regulations mandate a clear separation of business functions and activities.<sup>22</sup>

As sustainable investing gains momentum, ESG ratings are becoming increasingly important for investors and issuers, attracting attention from global media. ESG risk ratings are the most common, measuring entities' exposure to and management of ESG risks. Examples include ratings from MSCI, Sustainalytics, S&P, and FTSE Russell. ESG impact ratings, conversely, measure entities' impact on ESG factors.<sup>23</sup>The distinction between risk and impact ratings can be subtle, as they often utilize comparable methodologies and similar metrics. ESG ratings can be backward-looking or forward-looking, depending on their objectives. Most ESG ratings cover corporate issuers, while some providers also rate local governments or countries.<sup>24</sup>

A credit rating is an opinion on the creditworthiness of an entity or instrument based on a ranking system of rating categories. It measures creditworthiness derived from summarizing and expressing data, based solely on a pre-established statistical system or model. In the ESG context, no such distinction exists between ratings and scores, and current ESG data limitations necessitate some form of qualitative input for both. Unlike credit ratings, which focus solely on financial risk, ESG rating systems capture non-financial aspects of corporate performance.<sup>25</sup>

Early ESG frameworks primarily focused on environmental factors, but growing awareness of social justice and governance issues expanded their scope. The shift from voluntary reporting to regulatory compliance marks a significant milestone in the evolution of ESG metrics, reflecting increasing societal expectations of corporate responsibility. Today, ESG indicators are

<sup>22</sup><https://www.esma.europa.eu/it/informazioni-sullesma>

<sup>23</sup><https://asuene.com/us/blog/ftse-russell-esg-rating-a-comprehensive-guide-to-sustainable-investment#:~:text=FTSE%20Russell%2C%20a%20subsidiary%20of,based%20on%20their%20sustainability%20and>

<sup>24</sup><https://inrate.com/blogs/esg-risk-ratings-vs-esg-impact-ratings/#:~:text=In%20contrast%2C%20ESG%20impact%20ratings,outcomes%2C%20regardless%20of%20the%20financial>

<sup>25</sup> Ribeiro do Amaral, Melissa & Willerding, Inara & Lapolli, Édis. (2023). ESG and sustainability: the impact of the pillar social: ESG e sustentabilidade: o impacto do pilar social. Concilium. 23. 186-199. 10.53660/CLM-1643-23J43.

pivotal in shaping not just investment decisions but also regulatory policies globally. The diverse range of ratings, rankings, and agencies contributes to the complexity and sometimes obscurity of ESG ratings. Report fatigue and a lack of transparency are two significant concerns. However, ESG ratings are beneficial for responsible investment and attract investors seeking sustainable perspectives. In well-functioning markets, portfolios with high ESG ratings tend to exhibit lower risk compared to non-ESG investments, although their reduced volatility often results in lower returns. Increased awareness among users about the flaws in ESG ratings and rankings, coupled with companies sharing data on the resources consumed by this industry, could exert greater pressure on ESG initiatives to become more transparent and credible, potentially leading to standardized questionnaires and collaborative efforts. Ratings play a crucial role by establishing minimum standards and promoting best practices.

## **2. The Relationship and Impact of ESG on Sustainability**

Sustainability is a broad term with multiple definitions. The theory of the three pillars of sustainability – environmental, social, and economic – is a commonly used framework in the literature.<sup>26</sup> This theory posits that sustainability is achieved through equilibrium among these three pillars. ESG metrics are employed to assess an organization’s sustainability, and sustainability or ESG reports serve as powerful tools for disclosing information about environmental, social, and corporate governance practices. Several initiatives are underway to integrate sustainability goals into corporate reports, reflecting the need to monitor organizational impact and track progress toward sustainability targets. A company’s profitability alone does not guarantee its long-term commercial sustainability, which can be significantly influenced by environmental and social scandals. Governments play a vital role in encouraging companies to meaningfully engage in ESG practices, shifting the perception of ESG from a mere sustainable label at an additional cost to an informational tool that promotes long-term sustainable development and continuous improvement in corporate profitability.<sup>27</sup>

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<sup>26</sup><https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf>

<sup>27</sup><https://www.globalreporting.org/>

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Resource sustainability focuses on the impact of a process, considering its effects on the environment, natural resources, and society. Accurate measurement of sustainability can be challenging due to its complex nature and the combination of multiple elements. Sustainability measurements provide a quantitative assessment of a company's actions to protect its natural and social environment and are becoming increasingly widespread, enhancing usability and facilitating comparisons between companies. Different agencies produce ESG scores using varying methodologies. The most widely used ESG scores often originate from prominent financial analysts who also produce well-known stock indexes. Most of these agencies prioritize risk reduction for investors while providing valuable insights into businesses.

As early as 2011, when academic interest in ESG scores was emerging, researchers began questioning how these scores actually measured sustainability.<sup>30</sup> Studies have attempted to assess whether ESG rating agencies adequately consider sustainability issues. Unfortunately, while some effort is evident, these agencies do not always sufficiently recognize sustainability issues in the composition of their ESG scores. This highlights the need for

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28 Passas, Ioannis. (2024). The Evolution of ESG: From CSR to ESG 2.0. Encyclopedia. 4. 1711-1720. [10.3390/encyclopedia4040112](https://doi.org/10.3390/encyclopedia4040112).

29 Short, J. A., & Ndlovu, G. (2025). Environmental, social, and governance (ESG) scores and portfolio performance: evidence from South Africa. *Journal of Applied Economics*, 28(1). <https://doi.org/10.1080/15140326.2025.2464507>

30 Clément, Alexandre, Élisabeth Robinot, and Léo Trespeuch. 2022. "Improving ESG Scores with Sustainability Concepts" *Sustainability* 14, no. 20: 13154. <https://doi.org/10.3390/su142013154>

developing a new measurement framework that adheres to ESG principles but aligns more closely with the objective of measuring the true level of sustainability within organizations.

A key challenge is that true sustainability is achieved over the long term. The problem lies in the inherent short-term focus of many aspects of management. The underlying notion of time in sustainability is essential when considering organizational sustainability. A long-term perspective is fundamental for breaking the short-termism cycle of merely appearing sustainable and achieving genuine, lasting sustainability.<sup>31</sup> Natural resources are finite, and ecosystems have limited capacities to absorb contaminants. Therefore, sustainability is possible only within these limited parameters. A robust sustainability measurement must consider the planet's limited capacity to produce resources and recycle by-products. This is perhaps the most critical reason why current ESG scores often fail to accurately measure sustainability. One way to globally evaluate resource sustainability is by assessing the global impact of pollution from human activities and natural resource extraction on a planetary scale.

The ecological footprint measure of resource sustainability is particularly compelling because it combines the planet's renewal rate with the impact of human consumption on the capital stock of natural resources. The flow-based sustainability measurement suggests that the net national product should incorporate natural resource stock in its calculation. The methodology for assessing the sustainability aspect of a score should make it difficult for those relying on traditional production methods involving the exploitation of scarce and non-renewable natural resources to achieve top scores.<sup>32</sup>

Sustainability is not simply about performing actions that appear sustainable in the present. A sustainability measurement that considers temporality would be influenced by an organization's capacity to fulfil its goals and promises. This is closely linked to the concept of resource sustainability, which takes into account available natural resources and the environment's limits to absorb CO<sub>2</sub> emissions or filter water, for example. In contrast to current evaluations, temporality would explicitly moderate the impact of an organization's future ambitions for environmental or social improvement based on its demonstrated capacity to fulfil past goals and objectives.<sup>33</sup>

Climate change is another leading global concern. Governments worldwide are

31 Haessler, Philipp. (2020). Strategic Decisions between Short-Term Profit and Sustainability. Administrative Sciences.

32 <https://www.footprintnetwork.org/our-work/ecological-footprint/>

33 Galpin, Timothy & Whittington, J. & Bell, Greg. (2015). Is your sustainability strategy sustainable? Creating a culture of sustainability. Corporate Governance: The international journal of business in society. 15. 1-17. 10.1108/CG-01-2013-0004.

seeking universal agreement and collaboration to maintain global temperature levels below 2°C above pre-industrial levels, ideally not exceeding 1.5°C. The target of determining this average global temperature and keeping it below 2°C is now established in policymakers' frameworks. The United Nations Framework Convention on Climate Change and subsequent conferences, including the one in Copenhagen, have been intensively working on this critical issue.<sup>34</sup>

Achieving the goal of limiting global temperature rise requires a shift to net-zero emissions by 2050, focusing on the reduction of greenhouse gas emissions. Efforts to address the global warming crisis have primarily concentrated on energy efficiency through a transition to renewable energy sources. However, this shift can only address approximately 55% of emissions originating from the energy sector. The remaining 45% stems from food production, manufacturing, garment production, and other everyday materials.<sup>35</sup>

The current “take-make-waste” approach of the linear economy generates significant greenhouse gas emissions, is resource-intensive and heavily extractive, and exacerbates the climate crisis. The current climate crisis may require a fundamental transformation of current trends by shifting from the linear model of production and consumption to a circular economy model. The impacts of the climate crisis place an immense burden on environmental boundaries, including biodiversity loss. Indeed, with the worsening climate crisis, over a million species of plants and animals face the threat of extinction. Global GDP is heavily dependent on nature and the ecosystem services it provides. The current linear economy model highlights the complexity of the challenges facing future generations. Actions are urgently needed to address the increasing demand for raw materials that negatively impact nature and ecosystems. The circular economy (CE) has emerged as an alternative approach to the linear economy, transforming the way products are designed, produced, and consumed.

The CE offers a holistic model for addressing environmental degradation, overconsumption of natural resources, and waste generation. It fulfills the needs for tackling the climate change crisis by reducing GHG emissions across all economic sectors through actions that require emission reduction across value chains, maintaining energy in products, and sequestering soil carbon and the products we use. The circular economy is an economic system designed to minimize waste and maximize resource utilization by extending the lifecycle of materials through recycling, reuse, refurbishment, and regenerative

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<sup>34</sup><https://unfccc.int/>

<sup>35</sup><https://www.ipcc.ch/sr15/>

practices. Unlike the traditional “linear economy,” the CE emphasizes closing the resource loop and reducing dependency on virgin materials.

The relationship between ESG performance and green innovation is reciprocal. High ESG scores can promote R&D investment in environmentally friendly technologies, leading to reduced resource dependency and enhanced operational efficiency. Strong governance structures amplify these benefits by ensuring effective resource allocation and strategic decision-making.

The environmental pillar of ESG directly aligns with CE goals by reducing resource extraction, minimizing waste, and lowering greenhouse gas emissions. Circular practices such as recycling and reuse can lower carbon footprints, aligning with ESG objectives to mitigate climate risks. CE’s regenerative principles ensure the protection of natural ecosystems, resonating with ESG’s focus on sustainable environmental management. The social pillar of ESG also finds strong connections with the CE. CE promotes labour-intensive processes like recycling and remanufacturing, creating employment opportunities, particularly in local economies.<sup>36</sup> Circular business models often involve local partnerships and community-based resource management, fostering stronger social ties and inclusivity. Reducing waste and pollution in a CE contributes to better public health, which aligns with the social responsibilities outlined in ESG. Finally, the governance pillar of ESG is reinforced by CE principles. Implementing circular practices often requires transparent supply chains and clear reporting mechanisms, strengthening governance. Many governments encourage CE through policy and regulation, and organizations adopting CE practices demonstrate compliance with governance norms. Companies embracing circularity often showcase forward-thinking leadership, aligning with ESG’s emphasis on ethical business practices.

Research indicates that Asia and America exhibit higher ESG risks compared to European companies, which generally demonstrate lower ESG risk profiles.<sup>37</sup>

At the industry level, sectors like transportation infrastructure and media, often considered low ESG risk, show significant differences from other sectors. The European Union has been a leader in implementing strict ESG regulations that influence investment activities, carbon markets, accountability, and disclosure, resulting in a sustainable global impact and paving the way for the “Brussels

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36 Shaheera Banu Z, V. Imala, “Integration of ESG principles: An initiative for transformation from Linear Economy to Circular Economy”, *Theoretical and Applied Economics* Volume XXXI (2024), No. 2(639), Summer, pp. 183-196

37 Pillai, Rekha & Islam, Md. Aminul & Sreejith, S. & Al-Malkawi, Husam-Aldin. (2024). Comparative analysis of environmental, social and governance (ESG) ratings: do sectors and regions differ?. *Journal of Management and Governance*. 1-41. 10.1007/s10997-023-09692-7.

Effect”<sup>38</sup>. Examples of such EU regulations include the Electronic Equipment Directive and the General Data Protection Regulation. Asia and South America have greater exposure to energy-intensive industries, placing them in a high-risk category. Additionally, the USA is perceived to have minimal ESG disclosure requirements and limited demand from institutional investors, highlighting the absence of a strong stewardship code that would require institutional investors to incorporate ESG factors into their decision-making. This regulatory leniency may encourage companies to pursue unsustainable practices. Industries sensitive to ESG issues often relate to environment-related topics, including sustainable supply chains and environmental risks, which are mainly linked to sectors such as Energy, Utilities, and Materials, all of which have a substantial environmental footprint.

## **Conclusion**

The integration of ESG and CE represents a paradigm shift in sustainability studies, challenging traditional approaches to economics and business strategy. In conclusion, ESG and the circular economy are mutually reinforcing frameworks that together drive systemic transformation toward sustainability. While ESG provides the evaluative lens, CE offers a practical roadmap for achieving long-term environmental, social, and economic resilience.

ESG ratings are vital tools for assessing firm performance, shaping investment decisions, and ensuring that companies adhere to sustainable and socially responsible practices. However, the impact of these ratings is not uniform across industries or regions, and their effectiveness varies based on factors such as climate risk management, corporate governance, and environmental practices. ESG ratings, while crucial in offering insights into corporate sustainability, reveal a divergence in how risks are assessed. Additionally, the regional context plays a crucial role in determining the significance of ESG ratings.

ESG scores, as they are currently constructed, function more as a risk score and are not designed to fully consider resource sustainability or an organization’s overall impact on the world. ESG scores are best suited for evaluating the probability of an organization’s future existence while mitigating investment risks that could arise from ESG-related issues. Nevertheless, scholars continue to utilize ESG scores to compare the sustainability of organizations against

38 Alamillos, Rocío & de Mariz, Frederic. (2022). How Can European Regulation on ESG Impact Business Globally?. *Journal of Risk and Financial Management*. 15. 291. 10.3390/jrfm15070291.

each other, often alongside other metrics, to make assumptions about the sustainability they represent. There are characteristics of sustainability theories that could be used to update ESG methodologies and more accurately reflect sustainability practices in their evaluations.

In conclusion, while ESG ratings are essential for evaluating firm performance and guiding investment decisions, their application is complex and varies significantly across industries and regions. By addressing discrepancies in rating methodologies and considering regional and industry-specific risk profiles, ESG ratings can become more robust tools for promoting sustainable business practices globally. Further research is needed to refine ESG metrics, particularly within the social dimension, and to develop more holistic frameworks that truly capture the long-term sustainability performance of organizations. This includes exploring the interplay between ESG and CE principles, as well as considering the temporal aspects of sustainability and the limitations of current measurement approaches. By addressing these challenges, ESG frameworks can more effectively contribute to a future where business practices are aligned with the long-term health of the planet and its inhabitants.

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