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# The Effect of ESG Management on Social Welfare Organizations

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## Abstract

**Purpose:** There is a significant opportunity for ESG management to act as a useful guideline for social welfare organizational structures when dealing with sustainability and ethical leadership. The ESG guidelines should allow these companies to improve their business efficacy. This paper aims to explore the specific impacts of ESG management on social welfare. **Research design, data and methodology:** The systematic review approach ensures that quality work is undertaken in tackling the existing gaps in the literature on ESG management in social welfare organizations. The outcomes of this review will give a useful 'real-life' picture of the consequences of ESG practices and suggestions that can increase the efficiency and sustainability of social welfare organizations. R**esults:** The principal favorable consequences are discussed in this chapter regarding the social welfare organization due to the implementation of ESG management. Subsequently, each effect is posted under different sub-titles and evidence from previously conducted research studies. **Conclusions:** ESG management is vital for social welfare organizations since it increases their efficiency in operations, public image, and opportunities to receive funds, and it helps improve relations with stakeholders. More so, these organizations can embrace the ESG practices and as a result bring more efficiency to the general welfare of the society.

**Keywords :** ESG Activity, Social Welfare Organization, Firm Strategy

**JEL Classification Code :** E01, D69, M14

## 1. Introduction

Sustainability and management of Environmental, Social, and Governance (ESG) factors remains relevant with organizational development and is relevant in the current society especially for social welfare purposes. ESG stands for environmental, social and governance which are considered the essence in evaluating the degree of sustainability and/or the ethical risk of an investment in a business. The scope of this research lies in identifying the impact of ESG management on social welfare organizations which are majorly non-profit organizations with objectives orientated towards social welfare, human rights protection, and community development.

Social welfare organizations are characterized by a challenging environment that defines their probability of success through mission performance, which is influenced by the internal management and corporate governance and the group or external environment factors, including funding, legislation, and perception. Management of ESG factors is a way through which these organizations can transform their sustainability level or the way they relate with their stakeholders, including how they operate to have better social returns.

The key factors behind the increase in demands of ESG criteria are as follows. Also, more and more stakes, such as

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donors, beneficiaries, and those who regulate organizations, expect the latter to be more transparent and responsible. Second, it is realized that the sustainable practices negative impacts do not outweigh the positive impacts and may in the future bring more funding, operation efficiency, and better reputation. Finally, ESG management is in harmony with the global initiative of sustainable development that the United Nations has declared in the form of Sustainable Development Goals (SDGs).

This paper aims to explore the specific impacts of ESG management on social welfare organizations, addressing the following research questions: 1. What are the key drivers for the adoption of ESG practices in social welfare organizations? 2. How do ESG practices influence the operational efficiency and sustainability of social welfare organizations? 3. What are the observed benefits and challenges associated with ESG management in these organizations? 4. How can social welfare organizations leverage ESG practices to enhance their social impact?

To address these questions, the paper will be structured as follows: In the next chapter, the author will make a bibliographic review of the literature regarding the implementation of ESG management in relation to social welfare organizations. This will be followed by a detailed description of the methodology to be employed to conduct this literature review in terms of collecting and analyzing prior studies. More so, the section of the study that will reveal the findings will incorporate the ramifications of ESG management in social welfare organizations that will be grouped under sub-sections of positive impacts. In the last analysis, the paper will present a discussion of the study's findings and proposition for practitioners in the field.

Therefore, there is a significant opportunity for ESG management to act as a useful guideline for social welfare organizational structures when dealing with sustainability and ethical leadership. The ESG guidelines should allow these companies to improve their business efficacy and at the same time contribute much more to the welfare of society.

## 2. Literature Review

ESG management has emerged significantly popular within the last few years primarily due to the rising consciousness of the sustainable development of businesses and their moral accountability. ESG management imply the incorporation of environmental and social aspects as well as governance into strategic and operational processes of an organization. This paper aims at establishing the various ways through which organizational performance is affected by ESG management, especially with regards to social welfare organizations. Thus, the goal of this chapter, based on the analysis of scientific literature, is to consider the impact of ESG practices on different aspects of organizational performance, longevity and stakeholder management.

### 2.1. The Evolution of ESG Management

The history of ESG management can be viewed as an extension of another concept, the corporate social responsibility (CSR), which highlighted the capacity of businesses to act as forces of positive change. In the past, sustainability has launched itself as a more tangible system, which sets out exactly how one can view and evaluate an organization's environmental variance, social impact, or governing standards (Krishnamoorthy, 2021). This evolution demonstrates that organizations are gradually adopting sustainable and ethical management solutions because they not only have a positive impact on the welfare of people and the environment but also on the stability of organizations' development.

### 2.2. Impact on Organizational Innovation and Sustainability

Numerous studies have established that ESG management has a positive relationship with organizational innovation in sustainability. Niu et al. (2022) caters the idea that digital leadership in conjunction with good ESG management practices enhance organizational i- innovation since it promotes the usage of new technologies and sustainable practices. Of their research, they underlined the fact that firms utilizing ESG factors in their management and strategic planning enjoy more competitiveness with regard to innovative activities and better adaptation of the organizational environment. This innovation is very essential for the social welfare organizations especially in today's complex and restricted circumstances.

### 2.3. Stakeholder Engagement and Trust

Proper ESG management improves the relationship of an organization with its stakeholders, and this is very important for the success of organizations that deal with social welfare. Park and Jang (2021) pointed out that the institutional investors have shifted towards adopting the ESG factors in their decisions to invest, which shows the emerging trends of sustainable and responsible investing. Such studies show that the organizations with good ESG scores are viewed as more credible and more trustworthy by the investors, donors and other important players. This trust is particularly crucial for the welfare and social organizations because it is indicative of their capability to attain funding for different projects.

### 2.4. Financial Performance and Funding Opportunities

Some research has reviewed ESG performance and evaluated its impact on financial returns with several pieces of evidence supporting the existence of a link. Chen et al. (2023) looked at the correlation between ESG performance and the financial results and concluded that higher scores within the ESG rating equate to higher performance within financials. There are a number of variables that might have led to these better results; they include: operational efficiency, risk minimization, and investors' confidence. In such organizations the notion of ESG performance means better chances of funding from the donors and from the grant making bodies who focus on sustainability and ethical to governance.

### 2.5. Operational Efficiency and Resource Utilization

While it seems to have a separate link with Operational Efficiency, it is noteworthy that ESG management can play the role in improving operational efficiencies by encouraging the adoption of sustainable environmental strategies that can lower wastage of resources. ESG employed in organizations also helps to better plan the business processes and achieve cost optimization according to Alsayegh et al. (2020). In terms of operational efficiency, this is a critical factor especially for social welfare organizations since they have to make an optimum use of the little resources they have, and in the process can effectively reach-out and offer the much-needed services to their clients or beneficiaries.

### 2.6. Reputation and Public Image

ESG framework intensifies the recognition and image of the organization since it forms the foundation for the well-being of society. According to Veenstra and Ellemers (2020), it is more successful to establish an appearance in the eyes of the public and the media if the organization has credible ESG practices. This positive perception can help get more volunteers, partners, and supporters to the organization's cause and objectives as well. The following are brief explanations of each of the topics covered: Reputation indicates that for social welfare organizations, ethical governance and organizational responsibility pulls clients towards that particular social welfare organization because it has better quality.

### 2.7. Employee Engagement and Job Performance

The literature review has highlighted the fact that ESG management leads to enhanced corporate performance and positive impact on its employees including increased motivation and productivity. Jin and Kim (2022) also investigated the impact of ESG activity recognition on corporate employee and get the finding that the recognition of ESG activities improves morale and performance of employees. This is specifically important concerning the(SEryoT) social welfare organizations since the level of motivation of the employees greatly influences the quality of services, the achievement of organizational objectives and effective functioning of an organization. Therefore, the culture of sustainability and ethical governance leads to social welfare organization's benefits, including employee satisfaction and retention.

### 2.8. Gender Diversity and Equality

The use of ESG measures also include the pursuance of gender diversity and equality within companies. In the case of Korean organizations, Cho et al. (2021) studied the relationship between ESG practices and gender diversity and equality to conclude that organizations with better ESG scores have better diversity and equality policies in place. An important factor may for social welfare organizations is to embrace gender diversity and equality as a way of increasing the organizations' staffing diversity and increasing the institutional work force decisions making improving the organizational performances.

### 2.9. Challenges and Barriers to ESG Implementation

While there are several advantages associated with ESG management, companies sometimes experience some difficulties or limitations in adopting these measures. Aich et al. (2021) highlighted some challenges to ESG, which are; ESG awareness, ESG resources, and change receptiveness. The challenges differ in degrees for social welfare organizations as they often experience scarcity of funds as well as manpower. Tackling these challenges involves education and increasing awareness, capacity building, and the development and procurement of resources that would enable compliance with ESG agendas.

### 2.10. The Role of Rating Agencies and ESG Indicators

The analysis shows that rating agencies contribute to the development of comprehensive approaches towards managing ESG factors in organizations. According to Veenstra and Ellemers (2020) suggested that the ESG indicators put forward by the rating agencies shape organizational conduct of an organization through acting like standards of desirable conduct based on proofs of sustainability and ethics. These indicators assist in evaluating the organizations' ESG performance and will guide the organizations on where to improve. In the case of social welfare organizations, for instance, implementation of these indicators improves credibility necessary in attracting stakeholders' support.

## 2.11. ESG and Total Quality Management

Chams et al. (2021) examined the link between financial performance and ESG with the involvement of TQM as a moderator. According to their research, they concluded that organizations implementing TQM alongside ESG activity increase the chances of attaining superior business performance. Thus, it can be argued that the implementation of TQM can act synergistically with ESG strategies, especially for social welfare organizations as it promotes improvement and delivery of quality services.

## 2.12. Digital Platforms and Social Innovation

The use of new technologies incorporated with ESG management can support social innovation and active citizenship. Katsamakas et al. (2022) noted that with the help of digital platforms, ESG measures can be effectively launched due to strong collaboration, knowledge exchange, and interaction with stakeholders. That way, digital media can strengthen the capabilities of social welfare organizations in applying ESG practices and getting higher social outcomes.

## 2.13. ESG Disclosure and Corporate Sustainability

ESG disclosure is another crucial element of corporate sustainability as it acts as a disclosure for companies where they have to report. Alsayegh et al. (2020) noted that organizations that report their ESG performance are inclined to be trusted by the stakeholders. For social welfare organizations, the practice of ESG disclosure can help show the organizations' principles of their ethical management and social accountability practices, so as to improve their community image and gain more funding.

## 2.14. Empirical Evidence and Case Studies

Research from different empirical literature sources tends to affirm the notion that ESG management does indeed enhance performance in organizations. Karwowski and Raulinajtys-Grzybek (2021) utilized the content analysis of integrated reports and proved that diverse initiatives within the scope of the CSR policy minimize environmental risks, as well as social and governance ones. To stakeholders of social welfare organizations, these cases provide a real-life illustration of how ESG management produces tangible value and demonstrate superb examples of how to do ESG right.

## 2.15. Conclusion

In conclusion, the literature points out that ESG management has a deep and positive impact on Social Welfare Organizations. Thus, implementing ESG practices will lead to efficient operations of these organizations and their functionality by improving the level of stakeholder engagement, financial performance, reputation, and satisfaction of employees. However, the practice of ESG management is not without obstacles; organizations encounter several impediments that limit ESG management and its associated gains. Thus the future studies should focus on the dynamics of this subject, its impact on the organizations for social welfare so that the practitioner in this field can get more ideas and information.

# 3. Research Design

The research approach for this study is to conduct a literature review on the subject of ESG management and its effects on social welfare organizations. The following steps outline the process:

1. Literature Search: A comprehensive search of peer-reviewed journals was conducted using academic databases such as PubMed, Scopus, and Web of Science. The search terms included "ESG management," "social welfare organizations," "sustainability," "non-profit organizations," and "organizational performance."

2. Inclusion and Exclusion Criteria: Studies were included if they met the following criteria: Published between 2017 and 2023. Focused on ESG management in the context of social welfare or non-profit organizations. Provided empirical data on the impact of ESG practices on organizational performance and sustainability Studies were excluded if they: Focused solely on the corporate sector without relevance to social welfare organizations.

3. Screening and Selection: The initial search provided a significant number of articles in the field of research; therefore, only the titles and abstracts were used to compare them. The final literature search involved assessing full text articles against the research questions. Regarding the flow of the articles, the PRISMA flow diagram was applied to report on the process of inclusion and exclusion.

4. Data Extraction: Data were extracted from the selected studies, including information on the research design, sample characteristics, ESG practices examined, and key findings. The extracted data were then synthesized to

identify common themes and patterns.

5. Analysis: The synthesized data were analyzed to identify the positive effects of ESG management on social welfare organizations. These effects were categorized into specific themes, which formed the basis for the findings section.

In conclusion, this systematic review approach ensures that quality work is undertaken in tackling the existing gaps in the literature on ESG management in social welfare organizations. The outcomes of this review will give a useful ‘real-life’ picture of the consequences of ESG practices and suggestions that can increase the efficiency and sustainability of social welfare organizations.

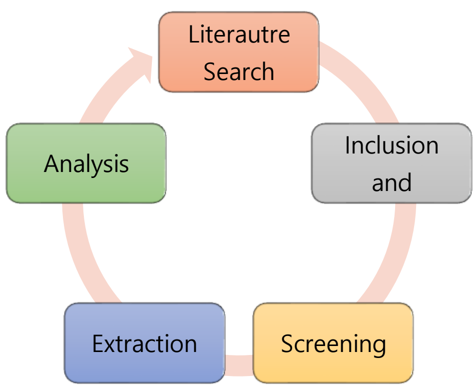


**Figure 1:** Five Step of the Methodology

## 4. Research Finding of the Study

The principal favorable consequences are discussed in this chapter regarding the social welfare organization due to the implementation of ESG management. Subsequently, each effect is posted under different sub-titles and evidence from previously conducted research studies. As from the analysis, various prospects show that ESG management improves the other aspects of organizational performance and sustainability.

### 4.1. Enhanced Operational Efficiency

Some of the potential advantages which companies can achieve through ESG management include the following; Among the potential benefits of ESG management, is the achievement of increased operational efficiency. The proper implementation of sustainable actions will help the majority of social welfare organizations minimize the company’s expenses and utilize its resources more efficiently. Data obtained from the research by Niu et al. (2022) proved the endogenous relationship between digital leadership and ESG management and the enhancement of innovation in organizations by improving organizational effectiveness and resource management. For instance, the use of energy efficient technologies and reduced wastage practices help in reducing the operating expenses.

### 4.2. Improved Stakeholder Relationships

ESG management enhances the ability of social welfare organizations to effectively relate to its stakeholders such as – donors, beneficiaries, employees & the society at large. Park and Jang (2021) argued that ESG practices improve accountability which is crucial for stakeholder trust. Organizations dealing with social welfare that integrate the ESG factors to their operations are seen as more credible hence attracting more public support and consumer patronage. Also, presentation and reporting of ESG progress strengthen the company’s goals and responsibilities within the stakeholders groups.

### 4.3. Increased Funding and Financial Performance

Implementation of ESG strategies may attract more funding for social welfare organizations as well as enhance their financial performance. Chen et al. (2023) revealed that ESG reports show that organizations with the top ESG scores receive more investors’ and donors’ attention due to their concern with sustainability and ethical management. Concerning the benefits of ESG management to financial performance, it is also worth mentioning that ESG risks can decrease costs attributed to legal sanctions and loss of image. In addition, the adoption of ESG criteria in company strategies helps organizations’ access grants and funding from foundations and government bodies targeting sustainable projects.

### 4.4. Enhanced Reputation and Public Image

ESG management to a great extent benefits social welfare organizations in terms of their reputation and image. According to the research conducted by the prior study (Veenstra & Ellemers, 2020), the organizations that are operating with high ESG standards are positively evaluated by the audiences and media. It is a cost-effective way of ensuring that more volunteer, partners, and even supporters are attracted to the organization, hence achieving the organizational goals. Further, ethical governance and remarkable social responsibility also help the organization to stand out from the competitors and also improve the competitive edge for the organization in the social sector.

Subtitles for Findings Section:

1. Enhanced Operational Efficiency
2. Improved Stakeholder Relationships
3. Increased Funding and Financial Performance
4. Enhanced Reputation and Public Image

In conclusion, the notion of ESG management is beneficial for the functioning of social welfare organizations because this approach helps to improve the efficiency of activities, maintain and develop relations with stakeholders, attract more financing and resources, and form a positive image. These positive effects help the organizations involved in social welfare and the needy, increase their sustainability.

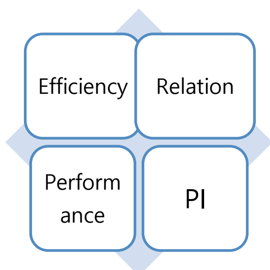


**Figure 2:** Four Results of the Solution

## 5. Discussions

In the discussion section, brief recommendations based on the effects identified in the findings section on how it can guide future practices for practitioners in social welfare organizations will be presented. The emphasis will be made on action-oriented advice and the effects of ESG management on boosting organizational sustainability and social outcomes.

### 5.1. Practical Recommendations for Practitioners

Based on the findings, social welfare organizations can take several practical steps to leverage ESG management for enhanced sustainability and impact:

1. Integrate ESG Criteria into Strategic Planning: ESG criterion ought to be included in the strategic management resources of organisations. This involves such measures as establishing ESG targets, drawing up strategic plans to meet such targets, and carrying out assessments of progress in this regard and reporting the findings. Incorporation of ESG into the business framework assists organizations in guaranteeing sustainable and ethical practices at the core of the strategy.
2. Engage Stakeholders in ESG Initiatives: ESG communications is very important in that it enables the development of good relations with the stakeholders since they are key in ESG implementation. An organization that aspires to implement ESG standards should ensure that it discloses the activities that it is undertaking in this area and engage the stakeholders in some of the decisions it is making. This can be done by the constant communication with the stakeholders, meetings and implementing the projects which are closely connected with ESG objectives.
3. Invest in ESG Training and Capacity Building: In order to adopt the ESG practices, the following strategies require a process of staff and volunteers' training and capacity-building. This entails the effort to raise the awareness on ESG, orientation on sustainable behavior, as well as the central competencies for ESG implementation within the organization. Capacity development is critical in that it guarantees that every member of the organization is bought into the ESG agenda and is prepared to assist in its implementation.
4. Leverage Technology for ESG Management: Technology refers to the processes of applying various tools to improve ESG management. As such, organizations should assess purposes for using digital applications in tracking and reporting ESG performance, operations optimization, and maintenance of stakeholder interfaces. For instance, automation of environmental checks on products, assessment of social responsibility, and governance on software makes ESG management smarter and much more efficient.

### 5.2. Implications for Future Practice

The positive effects of ESG management identified in this study have important implications for the future practice of social welfare organizations:

1. Sustainability and Long-Term Impact: The implication of ESG standards as discussed above will improve the sustainability and therefore the impact of social welfare organizations. ESM initiatives are win-win strategies that help organisations attain enhanced operational efficiency and enhanced or improved organisational financial returns as well as positively enhance the social and natural contexts of the environment.
2. Enhanced Credibility and Trust: The organizations that invest efforts to manage ESG factors can be expected to enhance credibility and trust from the stakeholders. This can culminate into more donors, beneficiaries, and the community supporting the organization since it helps in achieving the laid organizational goals and helps in spreading the social outreach.
3. Continuous Improvement and Innovation: It allows management to endorsing an organizational culture

that reflects the constant seek for efficiency and improvement. Such assessment and grooming of the ESG practices indeed make sure that organizations are ready for the new challenges that are coming their way not only with the help of identifying the new challenges or threats but also with the help of the opportunities that they are getting by the way.

### 5.3. Conclusion

In conclusion, ESG management is vital for social welfare organizations since it increases their efficiency in operations, public image, and opportunities to receive funds, and it helps improve relations with stakeholders. More so, these organizations can embrace the ESG practices and as a result bring more efficiency to the general welfare of the society. ESG checklists also provide practitioners recommendations including how they should incorporate ESG criteria in their planning, involve stakeholders in the ESG processes, build organizational capacity and incorporate technology in ESG management. To sum up, these steps will assist the social welfare organizations to manage the issues related to sustainability and ethical governance in order to make sustainable and positive impacts for a long term.

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