The Environmental, Social and Governance (ESG) Responsibilities of Landscape Architecture Firms

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Abstract. ESG performance has a positive influence on the long-term sustainable development of both the firm and the society. LA is concerned about the relationship among humans, the buit, and natural environments, so it is of especial importance to study what LA firms are supposed to do in ESG practice. This paper made a detailed discussion about each of the ESG responsibilities of LA firms respectively in accordance with the distinctive firm characteristics of the LA industry. This study might have two possible implications for the literature on ESG: (1) an industry-based approach to the study of ESG performance is of theoretical and realistic significance; and (2) ESG responsibilities are worthy of attention for the study of LA firms.

1 Introduction

ESG represents environmental, social, and governance respectively. ESG implies different literate meanings standing from different perspectives. From the perspective of the investor, ESG refers to a firm’s performance on environmental, social, and governance issues, hence the ESG performance. As for investors, ESG refers to an investment criterion that socially conscious investors use to screen potential investments. Environmental criteria consider how a firm performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a firm’s leadership, executive pay, audits, internal controls, and shareholder rights.

ESG investing evolves from socially responsible investing (SRI) which is also termed as mission investing, ethical investing, sustainable investing, or green investing. It can be traced back to as early as the 18th century when some religious groups prevented their believers from being involved in such businesses as tobacco, alcohol, gambling, and weapons, because such businesses were viewed as being against their religious ethical beliefs. Social concern became an investing dimension for investors. Towards the 1990s, rapidly developing economy worldwide has increasingly deteriorated the global environment. Environmental issues such as global warming and environmental pollution have become a growing concern for investors and the public in general, and environmental protection concern was thus incorporated into the investing standards. As numerous companies went bankrupt during the period of the Asian financial crisis which occurred in 1998 and various scandals such as in Enron or WorldCom were exposed in the early 21st century, the significance of strong governance has attracted increased attention from the government, academics and practitioners. As a consequence, corporate governance was added as a new dimension into the domain of responsible investing. In 2006, the United Nations-supported Principles for Responsible Investment (UN PRI) was proposed by Kofi Annan, former UN secretary- general, and established under the joint efforts of the United Nations Environment Programme Finance Initiative (UNEP FI) and the United Nations Global Compact (UNGC). It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Up to date, UN PRI has possessed over 2300 signatories including dozens of Chinese investment funds from more than 50 countries and managed over 80 trillion US dollars of assets.

On September 30, 2018, China Securities Regulatory Commission issued Code of Corporate Governance for Listed Companies in China. Chapter 6 of the Code stipulates that listed companies should concern about such issues as environmental protection and public charity and value corporate social responsibilities while pursue the maximization of shareholder interests. This signifies the establishment of ESG information disclosure framework. On November 13, 2018, Asset Management Association of China issued the Research

*https://www.investopedia.com/terms/e/environmental-social-and-governance-egs-criteria.asp

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b https://www.unpri.org/pri/about-the-pri

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Report on ESG Evaluation System for Listed Companies in China. The Report provides a guideline for institutional investors to engage in green investment and practice the ESG investment principles.

Currently, growing numbers of financial institutional investors, both domestic and international, are practicing the ESG investing. They prefer to invest in those targets in their investment portfolio which capture a high proportion of green sales or are capable of maintaining a sustainable development.

Under the great pressures from ESG investing, firms are obliged to concern about environmental, social, and governance issues during their operation. From the perspective of the firm, ESG means what a firm is supposed to do in regard to environmental, social, and governance issues, hence the ESG responsibilities. ESG responsibilities have become an increasing concern for governments, regulatory bodies, and investors. Under such background, this paper attempts to explore how landscape architecture (hereafter abbreviated as LA) firms should perform their environmental, social, and governance responsibilities respectively so as to achieve sustainable development.

2 Literature review

Most existing literature focuses on the respective influence of environmental, social and governance performances on corporate value separately. The conclusions are inconsistent. Some scholars maintained that environmental performance has a positive effect on corporate value (Hu, 2012; Lu and Jiao, 2011), while some other argued that environmental performance has a negative effect on corporate value (Filbeck and Gorman, 2004). Chopra and Wu (2016) studied the environmental performance of companies in the computer and electronic industries and found that good environmental performance helps to improve long-term corporate performance. Kassinis and Soteriou (2003) found that good environmental performance is contributive for the firm to improve its sales, market share, and profitability and helps to stimulate market demands and customer satisfaction.

In terms of the effects of corporate social responsibilities on corporate performance, Surroca et al. (2010) and Kim and Kim (2014) argued that corporate social responsibilities have a positive correlation to corporate performance, Vance (1975) and Lerner (1994) concluded that corporate social responsibilities have a negative correlation to corporate performance, and Mewilliams and Siegel (2001) found no relationship between corporate social responsibilities and corporate performance. As the relationship between corporate governance and corporate performance, too many scholars like Aldamen (2019), Li and Qiu (2010), and Li and Sun (2007) have found evidence that good corporate governance helps to improve corporate performance and value and facilitate firm’s sustainable growth. Thus, this paper does not attempt to spend any more chapters on it.

In recent years, there have been a growing number of literatures on the relationship between ESG performance and corporate financial performance. Velte (2017) found that ESG performance have a positive effect on ROA based on a study of 412 listed companies in German. Dimson et al. (2015) found that ESG expenditures are able to effectively reduce the overall financial costs. Ghoul et al. (2017) studied the relationship between ESG performance and market capitalization of companies from 53 countries and found that ESG performance helps to reduce financing costs.

Nevertheless, firms in one industry have different characteristics from those in another industry, and the industry differentiation is likely to have an effect on the components of ESG responsibilities as well as their influence on corporate performance. Besides, the governmental finance policies, interest rate policies, and industry policies and other external environmental factors have different effects on different industries. Thus, it is of special realistic significance to study the effects of ESG responsibilities on corporate performance from the perspective of the firm according to the distinctive industry attributes. Unfortunately, few studies of the effects of ESG performance on corporate financial performance have been made according to the distinctive characteristics of a certain industry.

Thus, this paper intends to analyze the components of ESG responsibilities of LA firms based on the unique firm characteristics of the LA industry. It will be hopefully contributive to enrich the literatures on ESG and LA firms.

3 Environmental responsibilities of LA firms

Landscape architecture is a professional design discipline that addresses both the built and natural environments. It focuses on the design, analysis, and planning of outdoor spaces across a wide range of scales, with the intent of creating places that are both meaningful and functional	extsuperscript{1}. In this sense, environmental responsibilities are especially important to LA firms. In some sense, LA firms are supposed to shoulder greater responsibilities of creating a better living environment for mankind than any other firms. Generally speaking, LA firms are supposed to take the following three kinds of responsibilities in regards to environmental protection.

3.1 Reducing environmental pollution

The LA firm is supposed to take reduction of environmental pollution into consideration during the process of designing and planning LA products. Ornamentation plants are an important component of LA. The LA firm may train its landscape architects to be environmentally conscious. During the process of LA design, landscape architects are supposed to make a combined use of a variety of plants according to each

	extsuperscript{1}http://www.washington.edu/students/gencat/academic/larch.html
The same goes true for LA firms. As explained in Carroll (1991), the ethical responsibility involves doing what is right for society, not just what is profitable for the firm. For this reason, we will not devote a special section to philanthropic responsibilities of LA firms but incorporate them into ethical responsibilities of LA firms. As explained in Carroll (1991), the ethical responsibility involves doing what is right for society, not just what is profitable for the firm.
right, just, and fair, and avoiding or minimizing harm to its stakeholders. Put it another way, the LA firm is expected to go beyond making profits for its shareholders alone to include meeting and improving the demands of every stakeholder. Stakeholders affect the LA firm’s corporate performance. If the LA firm takes any actions unethical to its stakeholders, they would respond by taking some measures to protect their own interests, and this would put the LA firm under pressure. Thus, to relieve pressures from the stakeholders, the LA firm is obliged to do right things to its stakeholders. For example, the LA firm is expected to make efforts to create a satisfactory working environment for its employees and improve their salary and welfare so as to enhance employees’ morale and productivity. For customers, the LA firm is expected to make an in-depth study of their individual demands, provide customized quality LA design products at low price, and establish and maintain a good relationship with them. In terms of competitors, the LA firm is expected to compete in a fair manner instead of taking some unethical actions such as slander and stealing competitive intelligence by hacking. As for suppliers, LA firms are supposed to pay money for the parts purchased in time as contracted. In terms of the community where they operate, LA firms are expected to take active part in and support community activities by donating capitals or materials.

5 Governance responsibilities of LA firms

Corporate governance refers specifically to the set of rules, controls, policies, and resolutions put in place to dictate corporate behavior. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. The board of directors is pivotal in governance\(^4\). Based on an empirical study of the companies listed in FTSE4Good Bursa Malaysia from the year 2012 to 2016, Ismail et al. (2019) found that ESG practices have a significantly positive correlation to board size, board diversity, board independence, i.e., the larger the board size, the better the performance of ESG practices in that organizations; the higher level of board diversity will give favourable impacts toward the ESG practices among the companies; and the higher level of independent directors in the board gives advantages to the companies in the ESG aspect. Thus, it is crucially important for LA firms to establish a well-structured board of directors. LA firms are supposed to enlarge the board size and increase the board diversity whenever possible, as diverse backgrounds and experiences are contributive to improve corporate value and performance. To do so, LA firms may endeavor to employ distinguished experts or scholars with rich expertise on environmental protection, and attract potential investors, which is contributive for the firm’s long-term sustainable development. Consequently, LA firms are supposed to make best efforts to perform well in ESG

4\(https://www.investopedia.com/terms/c/corporategovernance.asp\)
practice so as to enable both themselves and the society to achieve a long-term sustainable development, as dedicated by the nature of LA. For this reason, this paper has made a detailed discussion about each of the ESG responsibilities of LA firms respectively in accordance with the distinctive characteristics of the LA industry. This study might have two possible implications for the literature on ESG: (1) an industry-based approach to the study of ESG performance is of theoretical and realistic significance; and (2) ESG responsibilities are worthy of attention for the study of LA firms.

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