

# KOPÁTSY' IDEAS ALONG THE DIMENSIONS OF THE ESG FRAMEWORK

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## **Abstract**

The study examines the forward-thinking and innovative ideas of Sándor Kopátsy that align well with the pillars of the increasingly prevalent ESG (Environmental, Social, Governance) framework, anticipating their time. During the research, document analysis was employed, incorporating not only Kopátsy's already published studies but also, uniquely, the unpublished manuscripts found in the digital archive of the Sándor Kopátsy Knowledge Center, as well. Kopátsy's starting point was his close relationship to nature, asserting that nature does exist for humanity. He claimed, that in a society harmonized with nature, people can be more productive, ethical, and achieve a higher cultural level. It is crucial, thus quality workforce, even without abundant capital or raw materials, can position a country at the forefront, parallel to the conscientious and realistically executed use of alternative energy sources. The research was conducted within the framework of the Kopátsy Research Program 2023 Fall.

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## **1. What does the ESG concept mean?**

Mihálovits et al.'s (2019) research states: "The ESG (Environmental, Social, Governance) approach involves considering factors beyond the traditional financial analysis framework during the investment process." In other words, ESG is fundamentally a market perspective whose main goal is to identify, monitor, and manage opportunities and risks associated with economic benefits and drawbacks [1]. The three main pillars of ESG are as the followings:

- **Environmental:** This condition focuses on how companies use their energy sources, manage the waste they generate, treat animals, and its impact on the air (air-pollution).
- **Social:** This pillar refers to the company's relationship with stakeholders not directly involved in investment, such as its employees or other community members. It may also include aspects such as whether the company engages in charitable activities, encourages employees to volunteer in the community, or promotes ethical behavior in their daily business.
- **(Corporate) governance:** Under this pillar, key factors include shareholder rights, board diversity, executive compensation, and whether these are in line with sustainability goals. Factors related to anticompetitive behavior and corruption within companies are also addressed under this condition [8].

The fulfillment of ESG criteria and their continuous reporting is of paramount importance because this rating helps financial investors choose among various investment opportunities, especially those who prioritize non-financial reports on practices and strategies related to environmental, social, and governance issues. Furthermore, these ESG ratings are also utilized by

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other socially responsible investors to assess and monitor the impact of their investments. The goal is to ensure that investors and other stakeholders will be better informed, enabling them to make sustainable choices that align more closely with their values. The main criteria are broken down based on the most tangible and quantifiable perspectives (such as employee satisfaction and well-being, carbon footprint reduction, or anti-corruption policies), with different categories given varying weights in determining the ESG scoring logic. As a result, this process closely resembles the credit rating process, as well [2].

A financial aspect of implementing ESG practices enhances capital allocation, as it aligns with both social and economic efficiency. The underlying assumption of the ESG model is that a larger and more comprehensive dataset leads to better decision-making, sustainable operations, and improved risk profiles. The market values environmental and social impacts, and as ESG criteria become more widely available and of higher quality, their consideration can potentially increase the stock prices of ESG-qualified companies. However, it is essential to monitor the widespread adoption and enforcement of ESG practices, as the more widely utilized they become, the more likely they are to be reflected in prices. This could lead to outperformance in the financial performance of investments or companies, so careful attention is required to navigate the potential implications of the increasing prevalence of ESG considerations in the market [7].

## 2. Evolution of the sustainability approach

One of the new main tasks of economics is to promote the development of a sustainable incentive environment, considering that the role of short- and long-term incentives is precisely understood and incorporated into economics [10]. In companies, sustainability manifests itself by incorporating continuous, thus sustainable, business practices that ensure the ongoing operation and success of the enterprise: it coordinates and manages environmental, social, and financial needs to make a company responsible, ethical, and consistently successful. Sustainability enables companies to meet current demands without compromising the business's ability to satisfy future needs. Corporate sustainability has three pillars, known as economic or profit, social or people, and environmental or earth, which notably align with the fundamental pillars of ESG previously introduced [8].

In the context of corporate sustainability, Corporate Social Responsibility (CSR) has emerged, signifying corporate commitment to social responsibility, shown in **Figure 1**. CSR is a self-regulating, voluntarily adopted business model aimed at offsetting social and environmental impacts. Due to its inherent nature, CSR is primarily qualitative, although the ISO 26000 voluntary standard helps companies define social responsibility and provides practical guidance for its achievement. Effective CSR assists companies in maintaining a positive brand image and boosts shareholder morale. Companies typically highlight the results of their CSR efforts in their annual reports, as well [8].

**1. figure number: ESG vs. CSR vs. Sustainability comparison**

ESG	CSR	Sustainability
Quantitative	Qualitative	Qualitative and quantitative
Extremally regulated	Self-regulated	Both self- and externally regulated
Directly related to business valuation	Not directly related to business valuation	Often related to business valuation
Implemented through measurable goals and audits	Implemented through corporate culture, value and brand management	Implemented through a combination of CSR and ESG

Source: Own edition, based on [https://www.techtarget.com/whatis/feature/ESG-vs-CSR-vs-sustainability-Whats-the-difference\\_\(2023\)](https://www.techtarget.com/whatis/feature/ESG-vs-CSR-vs-sustainability-Whats-the-difference_(2023))

The concept of green finance and ESG evolved from corporate sustainability, like CSR, as shown in the above figure. The goal of the concept is to integrate two different perspectives: the shareholder principle and the stakeholder interest. The shareholder principle emphasizes that

management should focus solely on profit maximization while adhering to the rules of the game. However, this approach reflects only a short-term outlook for the future. On the other hand, the stakeholder principle includes considering the interests of all stakeholders, such as the community, environment, shareholders, etc. However, integrating all stakeholders in practice can be challenging [25], thus the main question is how to implement the integration of these two principles. Researchers and practitioners found a solution by integrating three main approaches into the investment process: Socially Responsible Investing (SRI), Environmental Social Governance (ESG), and Impact Investing [3]. Socially Responsible Investing approach involves excluding certain industries and activities from the investment world, avoiding investments in areas that are unquestionably harmful or ethically questionable [4]. Unlike SRI, ESG itself assesses companies using a scoring system, assigning them an ESG score that can be used to exclude less sustainable stocks and investments. Moreover, Impact Investing goes beyond ESG by expecting the specific investment to have some positive impact on the environment and/or society, such as reducing carbon dioxide emissions from the company's activities. Consequently, it is quite essential that these three approaches build on each other, thus as if something is already classified as ESG, it is also classified as SRI, as they are integral parts of each other [3].

ESG factors influences not only the direct investment decisions but also exerts an impact on GDP (Gross Domestic Product), FDI (Foreign Direct Investment) and the results of WVS (World Values Survey), as well. These assumptions can open extremely new research directions, especially since other researchers have already served with some results regarding them. Chen (2023) indicated that in BRICS countries, the fulfillment of ESG obligations, alongside economic growth, net national income, FDI, and inflation, shows a positive correlation with the achievement of SDGs [26]. Leogrande & Costantiello (2023) have also endeavored to explore the impact of GDP on ESG factors. They found that the GDP growth rate is positively associated, among others, with "Government Effectiveness" and "Prevalence of Undernourishment," and negatively associated, among others, with "Unemployment" and "Research and Development Expenditure." [27]. The WVS global research project examines the different values and belief-systems of people, communities, and social groups, researching what kind of social, political, and even economic impact they have. All this approach fits well with the middle pillar of the ESG framework, i.e. the social (S) factor.

### 3. Kopátsy's approaches along the dimensions of the ESG-framework

Economist Sándor Kopátsy had thoughts several years ago that indicated the need for change in the world to sustain further development. Many of these thoughts align well with the criteria of ESG, which highlight environmental and social risks, expected micro- and macro-level institutions, and frameworks that, when considered and effectively managed, can lead to tangible benefits for a national economy or regional ecosystem. Throughout the research process, we conducted content analysis, working on 27 sources, 16 of which were compiled by Kopátsy, including several rare manuscripts, as well. During this research we were able to evaluate some of his works that have never been published before.

**Environmental pillar:** Throughout his life, Kopátsy considered nature to be one of the most important aspects, and he felt fortunate to always could engage with and explore nature. From his perspective, nature exists for humanity, and it should be adapted to human needs. However, he regarded it as a sin to abuse this gift [9]. Kopátsy considers nature conservation to be a significant aspect, while in his opinion, societies do not pay enough attention to it. According to him, there are three main types of activities against nature in history [6]:

1. Deforestation caused by overpopulation.
2. Environmental destruction caused by excessive animal husbandry.
3. Deforestation caused by shipbuilding.

Of the three main types, he considered the one caused by overpopulation to be the most important in today's world. He regarded this as the greatest threat to the world because he believed that if the population continues to grow in greater and faster proportions, there won't be enough

resources to supply of people. Kopátsy in his writing gave an example to demonstrate this problem which is that someone who survives on one dollar a day today, even if hungry, can only be protected from starvation in the wealthy world for a maximum of five dollars a day. Or the rescue of a single person would cost \$1,500 annually, meaning rescuing a billion people would cost \$1,500 billion per year. This is not a particularly large sum for the wealthy world, but it would still far exceed what can realistically be collected annually. However, a much bigger problem is that feeding today's hungry would minimally increase the population by about 20-30 million. In other words, the above amount should be raised by \$30-45 billion annually. Over fifty years, support for the hungry would increase to about three times, i.e., to \$4,500 billion per year. This example highlighted the delicate balance between increasing the well-being of the population and the growth of the population in the poorer segments – he added [17]. Kopátsy divided the present-day humanity into three groups based on population growth, as follows [12]:

1. The most developed quarter of humanity, which possesses ample financial and professional resources not only to preserve but also to improve the natural environment.
2. The second quarter of humanity consists of the extraordinarily dynamically growing yet still very poor China, where catastrophic nature destruction is taking place. Significant environmental degradation is occurring in western China, which has accelerated in recent years. (However, in Kopátsy's writings, it is mentioned that the situation is not hopeless there because they were willing to curb their rapidly growing population.)
3. The other half of humanity is reproducing at an unprecedented rate, which may represent a hopeless situation for them, not only in terms of nature conservation but also in terms of economic development.

To stop this danger, various conditions need to be observed, such as making contraception and abortion accessible to poor families. Additionally, it is important that the average level of education exceeds 12 years, and illiteracy is not widespread. The income per capita should be sufficient for a good standard of living, eliminating the need for people to live in poverty. According to Kopátsy, if these basic conditions could be adhered to, Hungary would be three times richer in 50 years than it is now. Within the number of children born, the upper third would raise as many children as the lower third, and the lower third would only have as many children as the upper third currently does [10].

As for indicating the strong link to nature, Kopátsy claimed, that over the years, the emergence of green movements has demonstrated people's strong connection to nature and their desire to be closer to it [11]. Throughout history, it can be observed that people have always longed to live near nature. It is evident that urban dwellers constantly move to the countryside to live in houses with their own gardens, which they can cultivate and care for according to their preferences. Even though this requires more time and money for them to commute to work or fulfill other obligations in the city, they still choose to do so. According to Kopátsy, this has a historical reason partly because cities were not hygienic enough in the beginning since they aimed to accommodate many people in a limited space. However, for people to function morally appropriately, they need to live in a good environment, which means a habitat with good hygiene and rich in plants. If these conditions are not met, people are more likely to become immoral, and these immoral individuals can be not only useless but harmful to society [6]. In his writings, Kopátsy (1998) also mentioned that life's great experiences include those that show that a person living close to nature is much more useful to society both morally and economically than one completely detached from nature [11]. However, if this environment does not exist, it affects not only the morality of people but also the value of their knowledge and talent. In a morally poor environment, individuals cannot fully develop and utilize their talents and knowledge because they may not have the opportunity or may not use them positively for society, making them less valuable [6].

**Social pillar:** Kopátsy found it crucial to introduce new principles and approaches in economics. Previously, the goal was to accumulate as much capital as possible; however, in today's world, the emphasis has shifted towards creating higher-quality labor. This is due to technological advancements requiring workers to possess more knowledge and skills, and businesses are willing to invest in return. In countries where the workforce is well-educated and adheres to ethical behavioral norms, there is a significant chance of reaching the forefront, even without having the

necessary capital, as they will attract capital. Therefore, it is essential to establish a well-developed education system in countries, gaining social status, and only then can they succeed [21], [22]. Another crucial aspect of success is culture and the system of behavioral norms. Culture can be significant because the political and economic performance of nations depends not only on the methods employed in the economy but also on the cultural appropriateness and quality. Industrialization, for example, could only succeed in cultures with the right conditions, such as the so called "puritan" culture. Under the system of behavioral norms, one must understand characteristics like diligence, discipline, orderliness, a demand for cleanliness, respect for the law, and even effective time management [23].

As high-quality labor can contribute significant value to society, it is crucial to create an environment where various skills and knowledge can flourish. The task of uncovering and developing these potential abilities as early as possible falls both on parents and educators. Therefore, it is essential to ensure not only that children have access to the best education but also that they can grow up in a supportive family environment. To achieve this, it is necessary for governments to support families and motivate parents to raise their children more properly. Kopátsy believed that children can be further supported and encouraged by transparent incentives tied to different educational or even academic achievement levels. Providing support to families for the optimal upbringing of their children not only contributes to their ethical development but also helps them become more valuable members of society [24].

Kopátsy also emphasized that environmental changes do not only pose harmful and threatening aspects but can also mean development and adaptation for us, as we evolve and adjust to our environment. Throughout history, humans, when exposed to new environments, adjusted their behavior to fit with the help of their brains, communication, and hands, while remaining genetically unchanged. Consequently, humans were the first species to modify their environment instead of genetically adapting to it, doing so to meet their needs – a prime example being the transition from gathering to production over time. Cities developed during this process, where inhabitants became increasingly independent of the natural environment, and their primary environment became what they crafted. In modern societies, the most significant lifestyle difference is observed between urban and rural areas. Urban dwellers have a different social structure than rural ones, who constantly maintain a close connection with their natural environment. Despite this, the urban population became the driving force of social development. However, in today's global cities, animals are rarely seen aside from pigeons, dogs, and cats. We cannot predict precisely how these changes will impact the consciousness of contemporary humans. Due to climate change, we have recognized the need to change our old habits for the future – which is also a significant opportunity for humanity [13], [15].

**Governance pillar:** Kopátsy primarily approached this dimension not in micro but in macro, national or regional aspects. He mentioned that for countries, curbing global warming can only be achieved by restraining the growth and pollution of energy consumption. In connection with this, he suggested examining how and at what costs it is possible to reduce consumption or develop more energy-efficient techniques to improve efficiency because reducing consumption could potentially yield higher results than the indiscriminate individual promotion of renewable energy sources. Additionally, it is necessary for states to invest in the development of renewable energy sources, as this can bring clear benefits in the future. In connection with this, it is of paramount importance for the industry to realize that it is not only necessary to reduce energy production with coal, oil, and gas, but also all other harmful and excess emissions, as even reducing these could have a much greater impact in protecting the environment [18].

According to Kopátsy, a crucial condition is that the characteristics of each renewable energy source are relatively weak, and their usage contradicts both the current and expected future trends in consumption needs. Therefore, he emphasized that states should refrain from investing a substantial amount of money in areas where the given region is not suitable for fully harnessing renewable energy's full potential. Instead, efforts should focus on how to better exploit existing energy sources so that we need to use less of them to satisfy our needs and they can last longer in the future. An example of this is when the United States figured out how to better satisfy their energy consumption needs with natural gas. As a result, there was such a significant reduction in coal consumption that they could export it and sell it at high prices to other countries [19], [20].

#### 4. Conclusion and Recommendations

Our exploratory and systematic work has revealed that Kopátsy, in a way that surpasses his time, engaged deeply and substantively in the study of nature, society, and the measures connecting them. His starting point was the relationship with nature, asserting that nature exists for humans, but at the same time, we must not abuse this responsibility. Kopátsy states the significance of the relationship lies in the inherent connection that humans have to the nature itself. In case people are deprived of this, they won't be able to behave ethically, and not only will they be unproductive, but they can also be harmful to society, as well. In sharp contrast to it, in a society harmonized with nature, people can be more productive, ethical, and achieve a higher cultural level. This seems socially highly important because, in the right environment, people can develop their abilities and expand their knowledge. This system includes not only the environment but also the school, education, and family. Parents and teachers can early recognize a young person's abilities and help unfold them on a societal level, too. Therefore, it's crucial for a country to have a stabile education system as it can produce a higher quality workforce. Quality workforce, even without abundant capital or raw materials, can position a country at the forefront. To achieve these goals, efforts need to be made from both a societal and a corporate and economic management perspective, while not neglecting energy efficiency and the use of consciously and realistically executed alternative energy sources. Kopátsy's thoughts visibly do reflect the fundamental elements of the ESG framework, helping us progress sustainably in a proper and a realistic way.

The results of our research can be interpreted under certain conditions. On the one hand, these can be traced back to the degree of processing and the limited number of available sources of Kopátsy, and on the other hand, to the fact that the current research is in starting-phase, - so its research methodology and set of keywords were initial, as well. There are prospects exist for advancing the research on ESG to explore their interactions with GDP, WVS, or FDI indices. Empirical studies could investigate these dynamics by analyzing data along ESG factors to discern their impacts on various indices across diverse countries and timeframes.

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