ESG – A New Global Trend. Examples for Austria, Poland, and Romania

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Abstract
Purpose/objectives: Corporate social responsibility (CSR) concept gained importance on the business market some years ago. Nevertheless, years later, this proved to be of insufficient value, thus its replacement by the broader concept called ESG (i.e. environmental, social and corporate governance) is currently observed. Non-financial reporting is considered fundamental for managing the transition to a sustainable global economy by combining long-term profitability with environmental protection and social justice. The aim of the article is to present the state of implementation of the ESG strategy in selected EU countries: Austria, Poland, and Romania.
Design/methodology: The material was prepared on the basis of a critical review of the available literature sources.
Findings: Austria is a leader in ESG performance. Polish Listed Companies made progress. Romanian companies have made great progress in ESG performance.
Originality/value: ESG is now an important factor considered when making business decisions in growing number of companies around the world. Investors prefer choosing companies that incorporate in their activity the ESG related values. Both public and private investments should be stimulated with the overarching goals of ESG to enable the EU transition to a climate-neutral, green, competitive, and inclusive economy.
Possible practical implications: The EU taxonomy established the ESG classification system, a list of environmentally sustainable economic activities, which should help companies, investors, and policymakers in making informed decisions regarding which economic activities to invest in.

Keywords

ESG strategy, results of ESG Austria, results of ESG Poland, results of ESG Romania

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Introduction

Corporate social responsibility (CSR) is a concept that was gaining importance among many companies some years ago (Lin-Hi and Blumberg, 2018). It promotes the principles of sustainable development in the business environment. Nevertheless, due to growing environmental challenges, like for instance the climate crisis, CSR proved not to be effective enough (Landi et al., 2022). It was also observed that some enterprises, instead of making real use of its potential to stimulate a transition towards a more sustainable business, used CSR as a pure strategy to improve the company's image among their clients and potential investors (PwC, 2021). To this end, not only stand-alone positions were created in companies, but also entire CSR departments were set up to work in this direction. An ISO standard, ISO 26000:2010 Guidance on social responsibility, was even developed and reviewed in 2021.

Years later, this development proved to be insufficient, so nowadays a broader term called ESG is gaining importance (Landi et al., 2022). Environmental, social and corporate governance are the new criteria, which stand for a range of aspects that modern businesses should pay attention to. This development is vital not only from the point of view of customers, who put more and more attention to sustainable choices in their purchase decisions, but also about investors for whom the values of sustainable development play an increasingly important role. ESG is currently considered an important factor taken into account when making business decisions in many companies around the world and helps investors choosing companies and undertakings that reflect their value system in business activities (Yu and Luu, 2021; Zumente and Lace, 2021; PwC, 2021).

The aim of the article is to present the state of implementation of the ESG strategy in selected EU countries: Austria, Poland and Romania.

1. ESG - Environmental, social and corporate governance

Responsible investing, which involves integrating environmental, social and corporate governance factors into investment policies and business decisions, is one of the prevailing trends in the current financial world (Zumente and Lace, 2021). Investors in different parts of the world seek to integrate ESG into traditional financial analyses recognizing that this approach enables better business results (Przychodzen et al., 2016). In order to gain more transparency regarding social and environmental performance of large entities, accounting rules needed to be changed.

In September 2014 the EU adopted the European Commission's (EC) Directive on the disclosure of non-financial and diversity information by certain large companies and groups, the so-called NFID – Non-Financial Information Directive (European Parliament, 2014). The Directive sets the requirement of disclosing information on the way certain large enterprises operate and manage social and environmental challenges. In this way investors, consumers, policy makers and other relevant parties can be informed on the non-financial performance of large companies. The overall objective is to foster businesses transition towards more responsible management models.

The incorporation of the ESG into the functioning of businesses fits well with the general recent developments in the EU. The European green deal (2019), presented by the EC in December 2019 together with the EU's international commitments regarding the climate and other sustainability objectives (like for instance the UN Sustainable Development goals) raised attention to sustainable finance and the role it can play in delivering the related policy targets (EC, 2022). As a consequence, in January 2020, the "European green deal investment plan" in the volume of one trillion Euro was presented, with the aim to promote and support an increase in sustainable investments in the EU in the coming years. Both public and private investments should be stimulated with the overarching goal to enable the EU transition to a climate-neutral, green, competitive and inclusive economy (EC, 2020a). In July 2021, in order to support this transition, the Commission adopted the "Strategy for financing the transition to a sustainable economy", which contains a comprehensive set of measures aimed at directing the flow of financial resources towards financing the necessary actions and investments (EC, 2021). Last but not least, the EU taxonomy established a classification system listing environmentally sustainable economic activities, which should inform companies, investors and policymakers' decisions regarding economic activities worth investing in (Taxonomy Regulation, 2020).

2. Non-Financial Information Directive, ESG and their impact on enterprises

The NFID Directive (European Parliament, 2014) requests from the large public-interest entities (i.e. employing more than 500 employees) a description of the policies implemented by them to accomplish the environmental, social, employee and corporate goals. The results achieved as well as the associated risks should be explained, together with contingency measures taken. The issues covered encompass e.g. the obligation to report or disclose non-financial data relating to CSR and the diversity policy, e.g. the composition of boards. In this way an organization documents its respective strategy, management practices, achieved performance, as well as outlook into future plans, and how all these contribute to value creation in the short, medium and long term.

The non-financial reporting covers detailed information on the current and expected impacts of the entity's activities on the environment, health and safety. It encompasses further aspects such as the use of renewable or non-renewable energy sources, greenhouse gas emissions, consumption of water or air pollution. In the sphere of social and labour affairs, activities are undertaken to ensure for instance gender equality, working conditions, or the basic workers' rights. The NFID Directive defines the required „reporting elements".

The EU regulation on sustainability-related disclosures in the financial services sector (SFDR Regulation, 2019), which entered into force on January 1, 2022, obliges the financial institutions to report the composition of their portfolios against the ESG indicators. It requires reporting of twice as many indicators: 64 instead of the existing 32, as it was requested by the NFID directive. The EU guideline includes 18 mandatory indicators and 46 additional indicators.

When reporting, companies decide between a national, a European or an international reporting framework. Currently the most popular non-financial reporting guidelines are the so-called GRI (Global Reporting Initiative). Other guidelines of relevance are for instance the UN Global Compact, the ISO 26000 Standard. Sroka (2014) provides a comparison of specific elements of these three guidelines.

Non-financial reporting and ESG are considered fundamental to foster the transition to a sustainable global economy as they combine long-term profitability with environmental protection and social justice (Landi et al., 2022). Whether or not companies decide to incorporate it into their business model may influence, i.e. increase or decrease their chances on the investment' market. On the other hand, management strategies neglecting the ESG may decrease confidence in the enterprise for the environmentally and socially conscious customers and shareholders. It can also decrease trust in the company among its employees.

Issues like discrimination in the workplace, policy of not withstanding from use of hazardous substances in production processes or causing harmful emissions to the environment are just few examples of practices that can damage reputation of a company. The positive effects expected include cost savings via product innovations, increased employee productivity, and more attractive positioning in the capital market, to mention only a few (Lin-Hi and Blumberg, 2020).

3. Examples of implementing ESG in selected EU countries

Austria

A study by Rogl et al. (2020) analyzed the trends in sustainability reporting among big Austrian companies. They noticed a constant increase in the share of companies publishing their sustainability reports since the year 2018, i.e. since the implementation of the NFID Directive through the Austrian NaDiVeG legal act. In 2019, the share of companies with a sustainability report increased from 35 to 42%, particularly among the top companies. The share of companies in the prime market remained at a high level, namely 95% of companies have produced a sustainability report. An increase was evident also among public companies - a change from 33 to 38% between 2018 and 2019.

It is worth mentioning that not only the companies obliged by the law disclose publicly information on their ESG activities. A growing number of companies which do not have such obligations also do so demonstrating their commitment to ESG and their long-term vision on their business strategies (Wared, Kusznier and Schneider, 2021).

In addition, Krueger et al. (2021) analysed ESG reporting in 29 countries, noticing that Austria was among the three countries where increase of ESG disclosure in the recent years was the highest. They noticed also a large increase in the quality of ESG reporting in Austria.

Though, a study of the Austrian National Bank, Bernhard and Riedlberger (2022) looked closer at the reports of 30 Austrian companies and noticed that information reported varies a lot among the different analysed subjects. With regards to the environmental aspects, detailed information on emissions is most frequently disclosed in the non-financial reports, e.g. the descriptions and calculations of greenhouse gas emissions emitted by the company itself or indirect greenhouse gasses from purchased electricity or purchased energy. Energy consumption within the company and internal water consumption are also frequently reported. Significantly less frequently reported are the indicators that are difficult to measure, such as animal species on the World Conservation Organization's Red List whose habitats are affected by business activities, emissions of ozone-depleting substances, or water bodies affected by wastewater discharge. Thus, although significant improvement in the area of sustainability reporting among Austrian companies can be observed, work on improvement in the coverage of all ESG aspects should continue in the future.

Poland

The survey performed under the project "ESG Analysis of companies in Poland" showed that a relatively small number of companies operating in Poland disclose data on their social and environmental performance (Sroka, 2017). An analysis conducted by the Reporting Standards Foundation and SEG, among 151 Polish companies that reported non-financial data for 2019, also showed that 56% did not report information in accordance with recognized reporting standards (BGK, 2020).

An educational project was initiated by the GES Agency in 2012 in cooperation with the Polish Association of Listed Companies, i.e. the companies that are present at the Warsaw Stock Exchange. Its main objective has been to increase the disclosure and transparency of reporting on non-financial indicators in Poland (Czerwińska and Kaźmierkiewicz, 2015). The enterprises undergo an evaluation with use of the GES Risk Rating methodology. The ESG aspects of the companies are evaluated based on the Principles for Responsible Investment (PRI) and international norms related to sustainable development. The outcomes are shown and discussed during annual conferences and published in annual reports. Recommendations for enterprises and investors on better disclosure of ESG indicators is also provided in this frame.

Despite the recognition that implementations of the ESG affects the valuation of companies on the Polish market, approximately 50% of investors perceives the ESG, but does not consider it to be of critical importance. It is, though, interesting to notice that every third of the surveyed investors is willing to lower their valuation or withdraw from investments if ESG risks are considered too high (PwC, 2021). Brokerage firms' analysts do not include ESG issues in their analytical recommendations. 18% focus on corporate governance issues in their approach to ESG. Meanwhile, only 43% of listed companies have an integrated business and sustainability strategy, and over one third has no non-financial strategy at all. More than 60% of investors believe that Polish companies are not ready to provide the required ESG information (BGK, 2020, PwC, 2021).

One of the biggest challenges for Polish companies noticed is reporting on the climate issues. Most companies listed on the Warsaw Stock Exchange still present a low level of awareness of the climate change problem. Out of 151 companies, only six scored more than 70% of the possible points. There has been some a slight improvement, as compared with the previous year, but still it amounted only 1.87 points out of a possible 10 (Sustainalytics, 2021).

Institutional bank clients in Poland, however, already notice that qualitative factors are gaining importance when it comes to discussing costs and availability of financing. The banking sector indirectly already includes ESG aspects in its lending policy, even though there are no hard-regulatory limits yet. Some of them are voluntarily introducing restrictions on financing certain sectors of the economy in support of ecological transformation (Komarnicka and Komarnicki, 2022, PwC, 2021), which is expected to further strengthen the trend toward more ESG in Polish businesses.

Romania

The ESG strategy for Romania is described in several interesting publications. Achim and Borlea (2015) evaluate non-financial performances of 65 companies listed on the Bucharest Stock Exchange (BSE), which report a “Comply and Explain Statement". In 2012 73% of these companies adopted the principles of best practices in corporate governance. Regarding the social and environmental performance, 97 % of the analysed companies report that they undertake such activities.

Recently, an analysis of the non-financial information reported by listed companies, for the period 2017–2019, and the measure of the average disclosure degree on environmental, social, economic, and governance (ESG) indicators were published by Beleneși, Bogdan and Popa (2021). The results showed a slight increase in the ESG disclosure index at the level of the sampled companies, from 47 units in 2017 to 52 units in 2019.

Marinescu (2020) provided analysis of the compliance of sustainability reports of Romanian companies with GRI Conceptual Framework. She noticed consistent increase of the level of adoption of the reporting practices according to the GRI conceptual framework in Romania and well as increase in the transparency of the reporting. Results of her work show that Romania is undergoing a continuous development with increasing number of companies publishing non-financial information to improve the ESG implementation.

Nițescu and Cristea (2020) presented a very interesting ESG report for the banking sector in Romania. The results of their empirical study show that a gradual approach to the ESG strategy may create opportunities for the Romanian banking system by adopting good practices in the field of sustainable development and by raising awareness of the risk factors and identifying solutions to minimize their potential impact. However, the implementation of an ESG strategy can pose challenges for the banking system, considering a variety of factors related to the environment (carbon dioxide emissions, electronic waste, green construction), social environment (health risk, access to communications, health and safety) and management (business ethics), instability of the financial system) that may affect the activities of banks.

Conclusions

The paper shows the level of implementation of the ESG concept in three chosen EU countries in the recent years. Austria is a leader in ESG performance. Polish Listed Companies made Progress. Romanian companies have made great progress in obtaining a high level of ESG performances. The obtained results corresponds well to the outcomes of the national CSRHub's Consensus ESG Ratings, where industry average for the companies in National Government Industry for Romania ESG reporting amounted to 58% (CSRHub, 2022a); in Poland to 87% (CSRHub, 2022b) and in Austria to 100% (CSRHub, 2022c). Observing the developments at the EU and also international arena regarding the transition to more sustainable economy it is expected that the trends of improvements among the companies in the area of their non-financial reporting will continue and that it will gain even more relevance for the future investment market.

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