Sustainable Performance in Business Organisations and Institutions: Measurement, Reporting and Management

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Preface

Sustainable performance in business organisations and institutions is a topical issue for top management and operational managers. The excellent sustainable performance will be challenging to achieve in a silo business culture. Therefore, many business leaders are standing now in front of the meaningful transformation that requires creating a clear roadmap, indicating how to build a strategy that embeds 'sustainability' into an organisation's performance measurement systems, how to operationalise, track and report on sustainability performance and finally how to manage sustainability performance in the longer-term.

There is no doubt that the interest in the sustainable performance of business organisations will be growing. It is enough to note that the new Corporate Sustainability Reporting Directive (CSRD) includes the mandate to report sustainability information under the European Sustainability Reporting Standards (ESRS). It is estimated that the provisions will apply to over 50,000 large and listed companies (except listed micro-companies) based in the EU and third-country companies based outside the EU with undertakings within the EU (subsidiaries or branches). This is a huge impact that, together with the European Green Deal and its policy initiatives' package, will change the mindset of many business organisations and public institutions. Nevertheless, the green transition will bring many challenges for nations, regions, and organisations. Lack of capacity to develop the required policies, lack of knowledge, infrastructure, technologies, and insufficient incentives to boost green and social innovations are only a few burning issues. Also, cultural barriers may cause a radical shift towards sustainable development difficult. There will also be questions about the cost-effectiveness of new solutions and their longevity and whether they are socially balanced and fair.

This monograph addresses critical aspects of sustainable performance: its measurement, reporting and management. It consists of fifteen chapters written by authors from various countries, including Austria, Brazil, Germany, Hungary, Italy, Lithuania and Poland. The reference to the current regulatory framework, international context, and cross-sectional analyses hopefully makes this work valuable and interesting for broader stakeholders.

The first chapter, written by **M. Comoli et al.,** presents the general directions taken by international and European institutions from the viewpoint of accounting, reporting and disclosure activities. The Authors address the current 'ESG' challenges, from the health emergency to the most pressing environmental and social issues, such as climate change and the energy crisis. By referring to theoretical grounds in the extant literature, they discuss what is considered to be the most effective way of imprinting disclosure activities on a ‘mandatory’ or a ‘voluntary’ basis. Their study also investigates what international and European institutions have planned to do to align corporate objectives (with a special focus on SMEs) with the environmental and societal requirements over the coming years.

In the second chapter, **J. Baumüller et al.** debate the impact of the CSRD on management control systems. The Authors claim that by directly referring to policies, actions, metrics and targets set up by organisations, the CSRD intends to embed sustainability issues into the core elements of management control systems. The chapter also focuses on the management approach that the ESRS require. Based on a literature review and the analysis of the new reporting framework, the Authors discuss the relevant requirements for European companies. Furthermore, they indicate implications for companies concerning the aspects of management control systems already established and those that must be developed further. J. Baumüller et al. recommend how this development can be fostered to benefit companies and the primary objective – sustainable development.

The third chapter is dedicated to investigating the cost and benefits of sustainability reporting. **K. Rudžionienė** and **Š. Brazdžius** conducted a literature review of the publications from the period of 2010 to March 2023. They found that the costs of sustainability reporting can be related to the resources required to collect and report data and potential reputational risks associated with disclosing negative information. The Authors identified that the financial benefits of sustainability reporting are associated with building long-term corporate value. Other benefits of sustainability reporting include improved reputation, enhanced stakeholder relations, increased access to capital and lower capital costs, and improved internal management of ESG issues. Moreover, sustainability reporting can help organisations identify, mitigate and manage risks and meet the growing demand for information about their environmental, social, and governance performance.

In the fourth chapter, **M. Nowak** debates the concept of accounting for stakeholders, focusing on non-financial reporting that reveals the organisation’s social and environmental performance. The Author raises the question of whether the non-financial reports can really serve stakeholders or are just used by business entities as a corporate spin applied to boost their image. The inquiry presented in this chapter takes the form of qualitative investigation, with the use of narrative and content analysis. The study does not analyse the legal aspects of reporting but focuses on stakeholders’ (potential users and preparators) perceptions of such reports.

The fifth chapter evaluates the usefulness of Internet reporting on the example of Polish public benefit organisations (PBOs) and refers to the entire information flow between an organisation and its stakeholders via electronic channels, including websites and social media. **T. Dyczkowski** remarks that this group of organisations is worth investigating due to two reasons. First, PBOs intend to find supporters among a broad range of institutions and individuals, including taxpayers entitled to transfer 1% (1.5% since the fiscal year of 2022) of their tax to an organisation of their choice. Second, the Internet communication of PBOs is not legally regulated nor structured by 'recommended practices'. Thus, the selection of information (non-financial, financial), a form of presentation (reports, statistics, narratives, multimedia), as well as regularity of reporting (static page, occasional updates, regular posts, online interaction) may matter in encouraging supporters to make their donation.

The next chapter discusses the idea of applying a balanced record of achievements in a museum. Museums are specific organisations whose main tasks are to permanently protect and collect the heritage of humanity, disseminate information about the value of the collected collections, and make the collections available to the public. Museums carry out specific missions in strategic terms and for which it is essential to obtain various sources of financing (subsidies, donations and own revenues). **R. Kowalak** confers various concepts of the Balanced Scorecard (BSC) and refers to the solutions used by worldwide museums such as the Benaki Museum in Athens, the British Museum in London, and the Tate Gallery chain. Then, the Author presents case studies of museums from Poland, discussing and assessing the structures and contents of their BSC.

M. Nieplowicz, in her chapter, develops the concept of a roadmap for implementing environmental, social and governance (ESG) perspectives in the BSCs of Polish cities. The Author emphasises that public administration can play a special role in disseminating the ESG concept. Local governments can do this through a set of smart voluntary policy solutions. The primary benefit is that striving to create the image of a trusted and transparent partner may become means for faster development. At the same time, on the internal ground, it becomes a factor in increasing the quality of life of the local community. **M. Nieplowicz** stresses that revising the strategy map should be the starting point for implementing the ESG perspective. While designing and developing the ESG perspective, communication with the local community and their active participation in reviewing project activities are also essential. Moreover, the chapter also draws attention to the role of control measures that should be applied at the BSC design stage since successive control seems inevitable while creating solutions that fit the dynamic environment.

The eighth chapter discusses the possibilities of using environmental accounting in District Heating Companies (DHCs) in Poland and the methodology for calculating basic eco-efficiency indicators that can be used in this industry. DHCs play an important role in meeting city dwellers' demand for heat in Poland and Central European and Nordic countries. To a large extent, this heat is produced from fossil fuels, so these companies significantly impact the natural environment. However, in the common opinion, district heating systems are considered more ecological than individual heating, also based on fossil fuels. **M. Wierzbiński** presents in this chapter various eco-efficiency indicators, explains how they should be calculated, and points out that these indicators should be used in integrated and ESG reports to build a competitive advantage in the district heating market and support the energy transformation of that industry.

In the next chapter, **P. Kroflin** and **C. Kroflin** analyse the sustainability reports of the most important German financial institutions published from 2017 to 2022. The Authors use two perspectives. The first focuses on the suitability of the reported content regarding the specifics of financial institutions' business models. The second refers to the interaction between sustainability reporting and sustainability performance. According to the Federal Financial Supervisory Authority (BaFin), financial institutions have a central role in mastering global sustainability risks. **P. Kroflin** and **C. Kroflin** claim that external pressures rather than intrinsic concerns drive the awareness of sustainability topics in financial institutions. Therefore, financial institutions face public control of their sustainability strategies and performance since they are public interest organisations. The legislation in Germany reflects this public interest since the publication of sustainability reports is mandatory for all corporations with more than 500 employees, irrespective of their legal form and capital-market orientation. This group also includes credit institutions and insurers. Thus, as **P. Kroflin** and **C. Kroflin** remark, German financial institutions may be seen as a reference group for sustainability reporting, its utilisation by the other reporting entities, and its impact on sustainability performance.

The role of financial institutions in transitioning to a more sustainable global economy was also remarked on by **L. Brusati et al.** The Authors argue that more and more banks are currently under pressure to boost their lending to sustainable investments while reducing funding and increasing interest rates for borrowers who fail to demonstrate their sustainability. Nevertheless, **L. Brusati et al.** raise the question: Do banks live up to the promise of effectively disclosing their own track record regarding sustainable performance? Their chapter addresses this question by analysing the sustainability reporting practices of the ten largest Italian banks. The non-financial reports of the selected banks are compared using the analytical framework designed and tested by the European consortium that implemented the 'INTEREST' Erasmus+ project.

The next chapter takes readers from the financial to the construction sector, which significantly contributes to the economy and substantially impacts the environment and society as one of the most resource-intensive branches of business. **P. Szałacha** notes that presently, increasing pressure is observed to execute construction investments in line with sustainable development goals, whereas transparent and comprehensive sustainability reporting, including business impact on stakeholders, has become an important issue. The chapter presents reporting requirements about construction industry-specific sustainable action fields, including environmental impact, social impact and promotion of sustainable building practices. In this context, the chapter assesses the sustainability reporting practices of leading Polish construction companies listed on the Warsaw Stock Exchange (WSE).

The waves of changes initiated by the European Green Deal and the implementation of the CSRD and the ESRS have formally directed many organisations on the path of incremental or transformational adaptation due to the need to include ESG issues in their strategies and business models. The twelfth chapter emphasises the importance of building an ESG strategy and its antecedents and aftermaths. **J. Dyczkowska** raises a question on how to build a sound ESG strategy and the major connections of that strategy with various concepts and layers of business activity. Her study examines the existence and components of ESG strategy in Polish ESG-risk-sensitive companies, selected based on Sustainalytics rating. The Author claims that, so far, some organisations in Poland might have treated ESG activities as a 'bolt-on' set of initiatives detached from the overall corporate strategy. This approach, however, is changing in response to global risks and stakeholder pressures shaping the current ESG landscape.

The next chapter is dedicated to green controlling methods in Hungarian corporate practices. Green controlling may be defined as a subsystem of corporate management that systematically coordinates planning, monitoring and the provision of environmental information. The study by **H. Fekete-Berzsenyi** and **D.E. Kozma** aims to map the green controlling systems applied in corporate practice. The Authors examine the prevalence of different methods and determine the extent to which environmental protection is an aspect of corporate governance processes. The study investigates what environmental control tools are used by organisations in order to implement environmental strategies. The Authors developed a questionnaire survey directed at the largest enterprises in Hungary.

In chapter fourteenth, **R.L. Sichel et al**. examine the relationship between the digitisation of services and processes by companies and sustainable development in Brazil, considering the importance of the regulatory framework. Sustainability is a term that has gained strength over the last few years, especially with the advent of the concept of sustainable development and its goals determined by the United Nations. In this context, the concept of sustainability goes beyond preserving the natural environment, including economic and social issues.

R.L. Sichel et al. highlight that the digitisation of services, fostered by technological advances and the pandemic crisis, stands out as a solution both from the point of view of business efficiency and for achieving sustainability goals. The chapter investigates how the regulatory framework contributes to the implementation of changes directed at sustainable development. The Authors highlight the role of the General Data Protection Law (LGPD) and regulations dealing with legal liability, e-commerce and labour issues.

The last chapter of **D.L. Sichel** and **C. Passeri Rebouças de Oliveira** discusses the links between sustainability, sustainable development, and intellectual property (IP). The Authors outline the roles of three organisations (the World Intellectual Property Organization (WIPO), the European Union Intellectual Property Office (EUIPO) and the Industrial Property National Institute (INPI) in Brazil) in terms of their sustainable and environmental initiatives and actions made. Finally, the study put forward recommendations on how IP can promote sustainability.

In conclusion, the monograph offers a deep insight into the topic of sustainability in business organisations and institutions. The Authors address several issues regarding sustainable performance measurement, reporting and management, present broad perspectives and different opinions, refer to various business sectors and indicate how the regulatory framework and various institutions support the sustainable development of business and public organisations. With this focus and scope, this publication may be intriguing and absorbing for accounting and management scholars, doctoral and master's students of socio-economic studies, and business practitioners. The book can also be used as supplementary material for accounting and management courses at the graduate and postgraduate levels.

Summary

This monograph provides insight into challenges that business organisations and public institutions will face due to the economy's green and social transition. In this context, sustainable performance managers will be expected to recognise new market conditions, respond to customer expectations and society's needs, adjust to the new regulatory landscape, change the corporate mindset, and transform old business models into new circular ones. In order to ensure a longitudinal, sustainable future, organisations will need to establish new criteria for sustainable performance measurement and design a set of indicators that enable agile ESG management and effective prevention of ESG risks.

The monograph contributes to the literature on sustainable performance threefold. First, **the monograph offers an inquisitive overview of the current regulatory background in the area of sustainability development**, in which the changes are gaining momentum. One may observe the increasing number of regulations and the growing complexity of requirements to be met by organisations. As M. Comoli et al. stress, ESG issues are now at the heart of various legislative changes, both at the international and European levels and disclosure of them will become increasingly important in order to capture the actual value of organisations. J. Baumüller et al. point out that the EU Commission aims to change European companies' behaviours and practices. The EU Taxonomy Regulation, for instance, set out four overarching conditions organisations must meet to confirm that they are environmentally sustainable. Apart from 'substantial contribution' to at least one environmental objective and 'no significant harm' to other environmental objectives, sustainable organisations are supposed to comply with the 'minimum safeguards' and 'technical screening criteria' (EC, 2023). The Sustainable Finance Disclosure Regulation (SFDR) established the respective mechanisms for the financial sector, supporting asset managers in providing standardised disclosures on ESG factors integration at entity and product levels. In turn, the Corporate Sustainability Reporting Directive (CSRD) introduces European Sustainability Reporting Standards (ESRS) containing rules which must be applied to sustainability statements published as part of management reports of companies already subject to the NFRD from the financial year 2024 onwards and for the other entities in-scope within the respective schedule. As J. Baumüller et al. remark, each company that falls under the CSRD is supposed to disclose

specific data from the ESRS to meet the information needs of the financial sector as well, as prescribed by the SFDR. Thus, there is a clear connection between these two Directives.

Second, **the monograph addresses the significant challenges within measurement, reporting and management**. They may be concluded as follows:

(1) **sustainable performance measurement challenges:**

- defining, selecting and implementing new KPIs and underlying processes for collecting the required data,
- the reliable and stable data source for calculating KPIs to ensure the credibility and comparability of ESG results,
- problems with ensuring a balanced presentation of the performance, signalling both positive and negative aspects,
- the development of advanced performance measurement and information systems,
- the correct understanding and proper measurement of the overall impacts generated by upstream (and downstream) supply chain partners,
- the inability to measure the cost-effectiveness of the main pillars of sustainable business strategies,

(2) **sustainable performance reporting challenges:**

- the homogenisation of sustainability reporting at the international level (just as it is now in the case of financial reporting due to the existence of international accounting standards),
- the effective extension of mandatory sustainability disclosures to SMEs in a proportionate scope enabling them to enter the ESG 'revolution' path smoothly,
- the cessation of the spread of greenwashing practices, in particular in SMEs, which may use unreliable data sources for non-financial disclosures,
- the alignment of multiple stakeholders' information needs within CSRD and ESRS, in particular in the context of the double materiality concept,
- the problems of arbitrariness and subjectivity in sustainability reports,
- the costs of sustainability reporting, including those related to preparing, certifying, and disseminating the reports and using digital reporting tools,

(3) **sustainable performance management challenges:**

- the development of a sound ESG strategy that considers ESG factors, reflects ESG commitments and verbalises ESG goals,
- the design of the ESG roadmap, which formulates ESG policies, indicates ESG programs, and determines the ESG team,
- the integration of all business actions under the sustainability umbrella, especially when moving from ambition to execution,

- the introduction of sustainability matters to the core elements of management control systems,
- the forms of stakeholder involvement and integration of stakeholder concerns into management control systems and ultimately into corporate decision-making,
- the maintenance of ongoing sustainability-oriented relationships with suppliers in the value chain,
- the inadequately structured information systems and organisational culture that is not oriented towards the 'best-suited-to-the-purposes' managerial accounting tools,
- the implementation costs of sustainability strategies stemming from the need to conform to regulatory requisites.

Third, the content of the monograph reflects **the issues of sustainable performance measurement, reporting and management from different angles**, presenting the **experiences of both business and public sectors**. M. Nowak notes that there are various purposes for publishing voluntary reports and disclosing non-financial information, including global, managerial, and ethical motives. Thus, the approach to non-financial disclosures may be motivated differently in public and business organisations. However, as M. Nowak states, if the organisations are supposed to present their impact on society, local communities, and the environment, it will finally incline them to act more morally as well.

T. Dyczkowski, who analysed Polish PBOs, evidenced that they prioritised non-financial disclosures on their websites but did not inform how they spent public money from subsidies and grants. The Author underlined that how these types of organisations deal with their accountability for social effects may be an essential lesson to commercial and other public institutions. On the other hand, R. Kowalak discusses how museums that provide specific services to society may adjust and use the BSC to measure financial and non-financial performance. It was also highlighted that the BSC might help the museum better communicate with funders and other stakeholders and present a balanced view of the organisational situation and its impact on the local communities. M. Nieplowicz stresses the role of the extended BSC in a city. The Author introduces a new ESG perspective into the BSC and remarks that the objectives contained in this perspective should translate into an increase in residents' quality of life. It is worth noting that the ESG perspective results directly from the financial one, as it involves incurring additional expenditures on ESG activities. M. Nieplowicz highlights that in large cities, an additional ESG perspective is to be separated in the BSC, while in smaller units, it is crucial to include additional goals and measures in the existing perspectives to address how important these activities are for the city. M. Wierzbiński also refers to the cities, but in the context of District Heating Companies

(DHC) services, which provide heat to the city dwellers. The Author develops a methodology for calculating fundamental eco-efficiency indicators. The impact of the DHC on the natural environment is not favourable, mainly if the negative consequences of activities carried out in the earlier links of the sectoral value chain related to fuel extraction are considered. Moreover, district heating systems in Poland need transformation towards renewable energy sources. As M. Wierzbiński claims, transformation can take various directions, but it should also be evaluated from the perspective of eco-efficiency indicators.

The financial sector has a unique role in sustainability reporting due to its particular economic functions and is therefore strongly influenced by changing regulatory landscape. P. Kroflin and C. Kroflin formulate two research questions. The first is whether the analysed German financial institutions fulfilled the sector-specific reporting requirements, and the second is whether the published metrics had improved over the observation period. Based on the empirical study, the Authors concluded that a high level of sector-specific relevance based on GRI standards existed for most of the examined institutions; nevertheless, the need for improvements was identified at some institutions. Moreover, the financial institutions succeeded in the economic area when comparing the results of 2017 and 2021, as they recorded the most significant number of indicators' improvements. Similarly, the ecological indicators' improvement was also pretty evident, whereas the social area recorded the lowest level of improvement over the observation period. L. Brusati et al. also focus on the financial sector, and specifically, they scrutinised Italian banks in terms of whether their non-financial reports live up to stakeholders' expectations regarding completeness and materiality. The Authors claim that currently, banks are taking a huge responsibility since the transition of the organisations to more resilient business models relies to a certain point on the possibility of facilitating access to bank loans for sustainable investments and limiting funding opportunities for those who contradict sustainable actions. Their results show that Italian banks experienced a lack of clear guidelines in regulations that led to arbitrariness in the disclosure of both sustainability performance and the risks and consequences for sustainability associated with investment decisions. The Authors formulate a list of recommendations in the form of interventions for European regulators duly supported by professional associations and academia to counteract the problems of arbitrariness and subjectivity that have afflicted so far the non-financial reports issued by European banks.

Another sector referred to in this monograph in the context of sustainability reporting is the construction sector, whose activities may have devastating impacts on society and the planet through carbon emissions, pollution and waste generation. P. Szalacha, who assessed the comprehensiveness and transparency of the sustainability reporting of leading Polish construction companies, came to various conclusions. First, construction companies in Poland prepare their reports based on GRI standards. Second, quite a number of examined entities report data required by the EU Taxonomy, whereas compliance with the TCFD recommendations is rarely met. Third, as a rule, a sustainable reporting voluntary audit is not performed in construction companies. The Author emphasises, similarly to P. Kroflin and C. Kroflin, who elaborate on financial institutions, that some areas still need to be improved in the context of sustainability reporting. These areas relate to supplier assessment from the environmental and social perspective, reporting on non-discrimination issues and GHG emissions.

The other Authors refer in their chapters to the aspects of sustainable performance management at various stages of business activity. J. Dyczkowska focuses on case studies analysis to examine the existence and components of ESG strategy in Polish ESG-risk-sensitive companies. Based on her study, she states that ESG strategy was not a mere myth in most ESG-sensitive companies analysed but has become a reality. Although organisations represented varying levels of engagement in this regard, they were gradually progressing towards reformulating their corporate strategy and including ESG aspects. In this vein, also H. Fekete-Berzsenyi and D. E. Kozma confirm, based on their research sample, that companies operating in Hungary have incorporated specific environmental objectives into their strategies. Moreover, to monitor their implementation, companies used the methods of the available monitoring toolbox to varying degrees. The most common methodological tools of green controlling systems were SWOT analysis, which can be a starting point for ESG strategy development and the use of environmental indicators.

Fourth, the monograph also addresses **how digitalisation processes and new technologies can propel sustainability development**, as well as **how intellectual property can boost sustainability**. R. L. Sichel et al. assume the legal context and elaborate on the contributions of the legal framework to the digitisation of sustainable development dynamics. Their study reflects the Brazilian case, where the digitalisation processes have progressed a lot, but they still encounter technical and implementation bottlenecks in their development. In addition, as the Authors remark, in the legal area, mainly due to the difficulty of regulating new types of relationships, several challenges appear in creating an environment conducive to virtual operations. D. L. Sichel and C. Passeri Rebouças de Oliveira highlight institutional support. After presenting the role of global, international and national players in underpinning the sustainable development of innovative entities, they indicate what can be the roles of small local IP offices which grant patents. The Authors note that IP offices can interfere in the process phases to motivate the deployment of green technology, as they can fast-track the analysis of environmentally friendly ideas.

The range of themes covered by this monograph oscillates around the topical issue of sustainable performance, that is, the effect of sustainable development – a broader term related to ensuring well-being that improves human life quality while respecting the welfare of nature. In this context, a quote from American attorney William Ruckelshaus, who once said: *Nature provides a free lunch, but only if we control our appetites* – comes to mind. Thus, all business organisations and public institutions, which are now at the turning point, should prevent themselves from actions which may compromise the ability of future generations to meet their own needs (Brundtland, 1987) since our further existence depends on it.

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