

Chapter 12

Is ESG Strategy in ESG-Risk-Sensitive Companies a Myth or a Reality? Evidence from Poland

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Many companies in Poland have embarked on the path of incremental or transformational adaptation due to the need to include ESG issues in their strategies and business models. Incremental adaptation refers to undertaking actions and behaviours that already exist to avoid system disruption (Berrang-Ford, Ford, & Paterson, 2011; Kates & Travis, 2012), which suggests the maintenance of the system relevance and integrity at a given scale comes to the fore here (Dinshaw, 2014). In turn, transformational adaptation consists in adapting at a greater scale or magnitude reflected in the implementation of new technologies or practices, the formation of new governance structures or systems, or shifts in the location of activities in response to climate change and its impacts (Intergovernmental Panel on Climate Change [IPCC], 2014, p. 80). The progress of this process is not the same in various industries. ESG strategy is a starting point for all ESG initiatives and actions.

There appear questions on how to build a sound ESG strategy and the major connections of that strategy with various concepts and layers of business activity. So far, some organisations in Poland have instead treated ESG activities as a 'bolt-on' set of initiatives, detached from the overall corporate strategy. This approach is changing in response to global risks and stakeholder pressures shaping the current ESG landscape. However, each organisation represents a different level of corporate ESG maturity. Some are at the beginning of their ESG journey. Some

are in the transition process of changing their business mindset. Others are pretty progressed in this regard.

This chapter aims to emphasise the importance of building an ESG strategy and its antecedents and aftermaths. It applies case studies' analysis as a research method to examine the existence and components of ESG strategy in Polish ESG-risk-sensitive companies selected based on Sustainability rating and compare their progress in this regard. The chapter also provides an overview of global risks and European initiatives and regulations affecting the ESG landscape.

12.1. From Global Risks and Stakeholder Pressures to the ESG Transformation

Global risks that the world is facing and pressures coming from various stakeholder groups shape the ESG landscape (See Figure 12.1 and Tables 12.1 and 12.2).

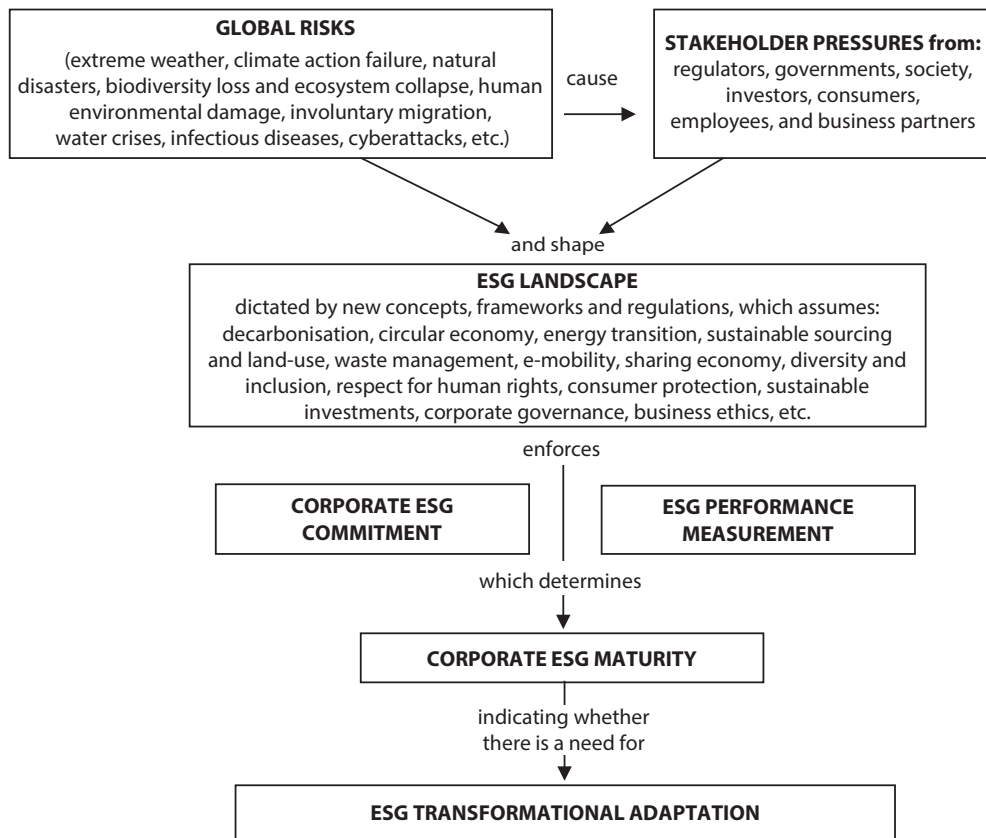


Figure 12.1. The journey towards ESG transformational adaptation

Source: own presentation.

Table 12.1. Top five global risks by likelihood

Year	1st	2nd	3rd	4th	5th
2021	Extreme weather	Climate action failure	Human environmental damage	Infectious diseases	Biodiversity loss
2020	Extreme weather	Climate action failure	Natural disasters	Biodiversity loss	Human-made environmental disasters
2019	Extreme weather	Climate action failure	Natural disasters	Data fraud or theft	Cyberattacks
2018	Extreme weather	Natural disasters	Cyberattacks	Data fraud or theft	Climate action failure
2017	Extreme weather	Involuntary migration	Natural disasters	Terrorist attacks	Data fraud or theft
2016	Involuntary migration	Extreme weather	Climate action failure	Interstate conflict	Natural catastrophes
2015	Interstate conflict	Extreme weather	Failure of national governance	State of collapse or crisis	Unemployment
2014	Income disparity	Extreme weather	Unemployment	Climate action failure	Cyberattacks
2013	Income disparity	Fiscal imbalances	Greenhouse gas emissions	Water crises	Population ageing
2012	Income disparity	Fiscal imbalances	Greenhouse gas emissions	Cyberattacks	Water crises
2011	Storm and cyclones	Flooding	Corruption	Biodiversity loss	Climate change
2010	Asset price collapse	Slowing Chinese economy (< 6%)	Chronic disease	Fiscal crises	Global governance gap
2009	Asset price collapse	Slowing Chinese economy (< 6%)	Chronic disease	Global governance gap	Retrenchment from globalisation
2008	Asset price collapse	Middle East instability	Failed and failing states	Oil and gas price spike	Chronic disease in developed countries
2007	Breakdown of critical information infrastructure	Chronic disease in developed countries	Oil price shock	China's economic hard landing	Assets price collapse

Environmental risk, societal risk, economic risk, geopolitical risk, technological risk.

Source: (World Economic Forum [WEF], 2008–2021).

Table 12.2. Top five global risks by impact

Year	1st	2nd	3rd	4th	5th
2021	Infectious diseases	Climate action failure	Weapons of mass destruction	Biodiversity loss	Natural resource crises
2020	Climate action failure	Weapons of mass destruction	Biodiversity loss	Extreme weather	Water crises
2019	Weapons of mass destruction	Climate action failure	Extreme weather	Water crises	Natural disasters
2018	Weapons of mass destruction	Extreme weather	Natural disasters	Climate action failure	Water crises
2017	Weapons of mass destruction	Extreme weather	Water crises	Natural disasters	Climate action failure
2016	Climate action failure	Weapons of mass destruction	Water crises	Involuntary migration	Energy price shock
2015	Water crises	Infectious diseases	Weapons of mass destruction	Interstate conflict	Climate action failure
2014	Fiscal crises	Climate action failure	Water crises	Unemployment	Infrastructure breakdown
2013	Financial failure	Water crises	Fiscal imbalances	Weapons of mass destruction	Climate action failure
2012	Financial failure	Water crises	Food crises	Fiscal imbalances	Energy price volatility
2011	Fiscal crises	Climate change	Geopolitical conflict	Asset price collapse	Energy price volatility
2010	Asset price collapse	Retrenchment from globalisation	Oil price spike	Chronic disease	Fiscal crises
2009	Asset price collapse	Retrenchment from globalisation	Oil and gas price spike	Chronic disease	Fiscal crises
2008	Asset price collapse	Retrenchment from globalisation	Slowing Chinese economy (<6%)	Oil and gas price spike	Pandemics
2007	Asset price collapse	Retrenchment from globalisation	Interstate and civil wars	Pandemics	Oil price shock

Environmental risk, societal risk, economic risk, geopolitical risk, technological risk.

Source: (WEF, 2008–2021).

It is worth mentioning that the World Economic Forum (WEF) publishes the Global Risk Report each year. The first one was issued in 2006 when the world was approaching a financial crisis. The report's purpose was to give policy-makers insights and enable them to cope with uncertainty over a decade. In the subsequent 17 reports, survey respondents were requested to evaluate the likelihood and the impact of each global risk on a scale from 1 to 5.¹ Table 12.1 presents the top five global risks in terms of likelihood, whereas Table 12.2 shows the top five risks regarding the potential impact. Data reflect global risks from 2007 to 2021 in a long-term perspective of 10 years. The reports for 2022 and 2023 do not present a distinction between global risk likelihood and impact. They show risk severity in the meaning of likely impact. The risks are categorised into five clusters: environmental, societal, economic, geopolitical, and technological.

The first three clusters largely reflect ESG issues. Interestingly, environmental risks prevail in the breakdown of the top five global risks by likelihood and are indicated in the first three places for some years. Extreme weather, climate failure actions or natural disasters have appeared to be significant global environmental risks. Among impactful societal risks of the last years are water crises, infectious diseases, and involuntary migration. The survey also indicated the high likelihood of technological risks such as cyberattacks and data fraud or theft. In terms of high impact, using weapons of mass destruction seems to be a significant geopolitical threat.

The last surveys show that environmental and societal risks come to the fore in this ranking regarding their severity for the planet and humanity (WEF, 2022; WEF, 2023). In 2022, the survey determined climate action failure, extreme weather, and biodiversity loss as the major environmental risks. Then, social cohesion erosion and livelihood crises were addressed as the most important societal risks. In 2023, the survey indicated within the top risks four environmental ones, including (1) failure to mitigate climate change, (2) failure of climate change adaptation, (3) natural disasters and extreme weather events, and (4) biodiversity loss and ecosystem collapse, and societal risk related to large-scale involuntary migration.

The gravity of global risks and growing awareness of society have pushed regulators and governments to take significant measures to counteract these challenges. Climate change and related implications need both mitigation and adaptation. Mitigation is about making the climate change impact less severe by shrinking greenhouse gas (GHG) emissions into the atmosphere, possibly either by diminishing their sources or enhancing the 'sinks' that accumulate and store these gases. Adaptation involves adjusting to climate change's current and future

¹ Considering likelihood, 1 represents a very unlikely risk, and 5 a risk that is very likely to occur over the next decade, while as for the impact, 1 represents a minimal impact and 5 a catastrophic impact.

effects by minimising human risks related to harmful effects and taking various opportunities associated with climate change, if any (NASA, 2023). Both mitigation and adaptation can positively or negatively impact the achievement of societal goals, including *human health, food security, biodiversity, local environmental quality, energy access, livelihoods, and equitable, sustainable development* (IPCC, 2014, p. 102).

The EU took many initiatives designed to compel business organisations and individuals to reduce their GHG emissions.

The first is the **European Green Deal**, launched by the European Commission (EC) in December 2019. It is a package of policy initiatives to direct the EU towards a green transition. The objective set by EU leaders assumes reaching climate neutrality in the EU by 2050, which is in line with the Paris Agreement. Obviously, such a green transition should be cost-effective, socially balanced and fair, considering different national circumstances. That is why a special **Just Transition Fund** was established to underpin regions and sectors most affected by the transition (European Commission [EC], 2021). The programme is one of the pillars of the broader Just Transition Mechanism, which mobilises around €55 billion in 2021–2027 to support the regions, sectors and workers (EC, n.d. e).

In March 2020, the EC adopted a proposal for **European Climate Law** (a vital part of the European Green Deal), whereas the provisional political agreement on the proposal was reached in April 2021. The Law was enacted in July 2021 and established a legally binding target for the EU of reducing GHG emissions by at least 55% by 2030 and to a net zero level by 2050, indicating the necessary steps to reach it. The Law also referred to measures for keeping track of climate-neutrality progress and adjusting actions accordingly (EC, n.d. d).

The next action was aimed at creating a coherent and balanced framework for reaching the EU's climate objectives. The '**Fit for 55'** package presented by the EC in July 2021 included policy proposals and amendments to the existing legislation to enable the European Green Deal. The package referred to the following areas:

1. **EU emissions trading system (EU ETS)**. This trading system is one of the largest carbon markets in the world and a vital tool for reducing GHG emissions in the EU. The reform of the EU ETS is to bring more ambitious emissions reduction goals with a faster cap decline and a reduction of 117 million allowances over two years. The EU ETS will include new sectors: maritime transport and buildings, road transport and fuels for additional sectors. Moreover, there will be a gradual withdrawal of 3 allowances for specific sectors and an increase in funding for decarbonising ETS sectors. Some part of the revenues from allowances for buildings, road transport and fuels for additional sectors will contribute to the social climate fund (European Council, Council of the EU, 2023a).

2. **Efforts sharing regulation (ESR)**. The regulation establishes a new target to reduce GHG emissions by 40% by 2030 in road transport, agriculture, buildings,

small industries and waste. EU ETS does not cover these sectors, while they are responsible for about 60% of total EU emissions. Each Member State is assigned an individual binding target. The regulation also defines annual national emission limits (European Council, Council of the EU, 2023b).

3. Land use, land use change and forestry (LULUCF) regulation. The regulation assumes that emissions within LULUCF will be compensated by at least an equivalent amount of carbon removals within the sector for 2021–2030. The Council and the European Parliament achieved a provisional deal on revising the regulation in November 2022. The new rules will set a more challenging EU-level target for the total net removals of 310 Mt² (European Council, Council of the EU, 2023c).

4. Alternative fuels infrastructure regulation. The regulation aims to ensure a sufficient infrastructure to (re)charge or (re)fuel vehicles with alternative fuels. Specific solutions and conditions will be established for road transport, ports and airports (European Council, Council of the EU, 2023d).

5. The carbon border adjustment mechanism (CBAM). This new regulation governs incentives for non-EU producers to reduce emissions. CBAM aims at preventing carbon leakage, which appears when production generating high GHG emissions (i.e., production of iron and steel, cement, fertilisers, etc.) is shifted outside the EU to countries with lower climate policy standards, where ETS allowances do not apply. The regulation will require EU importers to purchase a CBAM certificate to cover price differences resulting from applying for EU ETS allowances in the case of EU producers. In other words, CBAM will mirror the EU ETS impacts for non-EU producers (European Council, Council of the EU, 2023e).

6. Social climate fund. A fund is a new tool for the financial underpinning of vulnerable households, micro-enterprises and transport users, who are most affected by introducing a new emissions trading system for buildings, road transport and fuels for additional sectors. The budget accounts for up to €65 billion of funding to Member States for 2026–2032. The fund is expected to decarbonise the transport sector, enhance the environmental and energy performance regarding buildings, cope with energy poverty, underpin economic growth and create green jobs (European Council, Council of the EU, 2023f).

7. REfuelEU aviation and FuelEU maritime regulations. These regulations are intended to increase the use of sustainable fuels by aviation and maritime transport, which is responsible for about one-third of the total EU transport emissions. The REfuelEU aviation regulation will induce aircraft fuel suppliers to increase sustainable fuel share in their distribution. By 2050, this share should achieve a level of 60%. There are also some requirements for airlines departing from EU airports and for EU airports. The FuelEU maritime regulation will require ships above 5000 gross tonnes to call at European ports to decrease the GHG intensity (European Council, Council of the EU, 2023g).

² Million tonnes of CO₂ equivalent.

8. Regulation on the methane emissions reduction. The regulation implies the necessity for methane emissions' measurement, reporting and verification in the energy sector, as well as regular monitoring of the equipment used by oil and gas companies to prevent from methane leaks. New EU rules also provide for immediate methane reduction through mandatory leak detection and repair and limitation of the emissions at the energy production plants (European Council, Council of the EU, 2023h).

9. Regulation on carbon dioxide emission limits for new cars and vans. The revised regulation raises targets for the CO₂ emission reduction for 2030 and establishes a new target of 100% for 2035, which implies that all new cars or vans on the EU market should be free from carbon dioxide emission since 2035 (European Council, Council of the EU, 2023i).

10. Energy taxation directive (ETD). The EU takes steps to revise the ETD, which will play a significant role in ensuring that the most polluting fuels, such as coal, oil and gas, would be taxed the highest. This approach should incline businesses to make greener choices based on a transition to cleaner energy, more sustainable industry and environmentally friendly options. The update of the ETD concentrates on two areas: the structure of tax rates and the extension of the taxable base (European Council, Council of the EU, 2023j).

11. Renewable energy directive. This Directive aims to boost the share of renewable energy (i.e., wind power, solar power, hydropower, tidal power, geothermal energy, biofuels, etc.) in the UE to reduce the energy sector's carbon footprint. The new target for the EU assumes that by 2030, at least 40% of all its used energy will come from renewable sources. On the national level, each Member State will set its goal for renewables in the national energy and climate plan. The revised Directive aims to establish new sector-specific sub-targets and measures for 2030 (European Council, Council of the EU, 2023k).

12. Energy efficiency directive. The revised Directive will set new goals for reducing energy consumption in the EU. The new levels are -39% for primary consumption³ and (-36% for final consumption⁴). The current goals were: -32.5% for primary consumption and -32.5% for final consumption. These changes will affect mostly buildings, industry and transport. As it was agreed, Member States are to define their indicative national targets. The reduction for the final energy consumption is to take place gradually, reaching drops of 1.5% *per annum* (European Council, Council of the EU, 2023l).

13. Buildings' energy performance directive. The revision of the Directive brings new energy efficiency standards for new and renovated buildings in the EU. It is expected that by 2050, all buildings should meet the standard of zero-emission in the EU. There are different assumptions for new construc-

³ It is a total demand for energy.

⁴ It is the amount of energy actually consumed by the end users.

tions⁵ and existing buildings, including residential⁶ and non-residential⁷ ones. There are also some exemptions for historical buildings, places of worship, buildings used for religious activities, standalone buildings smaller than 50 m² and others. The Directive also refers to solar energy installations in buildings. The renovations will be encouraged by financial and administrative support and tax reductions (European Council, Council of the EU, 2023m).

The **Circular Economy Action Plan** is another agenda adopted to build a cleaner and more competitive Europe in collaboration with economic institutions, companies, consumers, citizens and civil society organisations (EC, 2020). The agenda indicates initiatives along the entire product lifecycle and targets how products are designed. It promotes a circular economy, sustainable consumption, and waste management, ensuring a *well-functioning internal market for high-quality secondary raw materials* in the EU (EC 2020, p. 3; EC, n.d. a).

The **EU Taxonomy regulation** for sustainable activities and its **Climate Delegated Acts** were created to underpin the green transformation of organisations in the EU into sustainable businesses/activities that follow the objectives fixed in the European Green Deal. The EU Taxonomy, which entered into force in July 2020, is a classification system stipulating which economic activities are environmentally sustainable. The regulation set the following environmental objectives: climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems (EC, n.d. a). The first Climate Delegated Act on sustainable activities for climate change mitigation and adaptation objectives has been applicable since January 2022. The Act formulates technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives (See: Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021).⁸ The second Complementary Climate Delegated Act has been applicable since

⁵ New buildings owned by public bodies are expected to be zero-emission by 2028, whereas all new buildings will be by 2030. New buildings will have to possess energy performance certificates as of 2030.

⁶ There is a plan for average primary energy use by buildings: by 2033 (D Energy performance class level), by 2040 (level set by each Member State that ensures meeting a target of zero-emission), and by 2050 (zero-emission in all existing buildings).

⁷ Member States are expected to establish minimum energy performance standards for non-residential buildings.

⁸ There is also an additional Delegated Act which supplements Article 8 of the EU Taxonomy Regulation applicable also in January 2022, which stipulates *the content, methodology and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments or lending activities* (EC, 2023c; see also: Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021).

January 2023 and introduces additional economic activities from the energy sector and specific disclosure requirements for businesses related to activities in the gas and nuclear energy sectors (EC, 2022).

Parallel to the EU Taxonomy regulation, there is a debate about its extension to social objectives and defining what builds on 'social investment'. Following Funds Europe (2022), *the social taxonomy is the planned classification of economic activities that contribute to the EU's social goals and provide guidelines for investors, businesses and regulators concerning what is and is not sustainable from a social perspective*. The Platform on Sustainable Finance published in February 2022 the final report regarding the possible structure of the EU Social Taxonomy. Interestingly, this report indicated the linkages between the EU Social Taxonomy and the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088), the proposal for the Corporate Sustainability Due Diligence Directive and the draft of the **Corporate Sustainability Reporting Directive (CSRD)** (Platform on Sustainable Finance, 2022).

In December 2022, the CSRD (Directive 2022/2464/EU) ceased to be a draft and was adopted by legislators replacing Non-Financial Reporting Directive (NFRD) (Directive 2014/95/EU). The new regulation entered into force in January 2023. It must be emphasised that the Directive aims to improve the disclosure of sustainability information in business reporting. The CSRD will require companies indicated in the regulation to disclose (For details, see Article 19a, par. 2 of the Directive 2022/2464/EU):

- 1) a brief description of the business model and strategy, and
 - the resilience of the business model and strategy with sustainability risks,
 - the opportunities related to sustainability matters,
 - the implementation actions in connection with financial and investment plans guaranteeing that the business model and strategy are in line with the transition to a sustainable economy,
 - explanation of how the business model and strategy consider the stakeholders' interests and the impact of the company on sustainability matters,
 - explanation of how strategy has been introduced with regard to sustainability matters;
- 2) a description of:
 - the time-bound targets associated with sustainability matters fixed by the company,
 - the progress that the company has made towards targets' achievement,
 - the statement whether the targets associated with environmental factors were based on conclusive scientific evidence;

- 3) a description of:
 - the administrative, management and supervisory bodies' roles concerning sustainability matters,
 - expertise and skills of these bodies to fulfil the assigned roles,
 - the access of these bodies to such expertise and skills;
- 4) a description of policies on sustainability matters;
- 5) information about incentive schemes linked to sustainability matters proposed to the members of the abovementioned bodies;
- 6) a description of:
 - the due diligence process introduced with regard to sustainability matters,
 - the actual or potential adverse impacts connected with the company's own operations and with its value chain, and actions to identify and monitor those impacts,
 - any actions to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions;
- 7) risks description related to sustainability matters, including a description of the company's dependencies on those matters and how those risks are managed;
- 8) indicators relevant to the disclosures in points 1)–7).

The CSRD applies to the large EU 'public interest entities', EU companies and EU consolidated groups that meet two tests of the following: (1) balance sheet total exceeding €20 million, (2) net turnover exceeding €40 million, and (3) more than 250 employees, other EU and non-EU companies (except micro-enterprises) with stocks listed on EU regulated markets, non-EU enterprises with a net turnover of more than €150 million in the EU and an EU branch or subsidiary (meeting the 'EU Turnover Test') (Kapotwe, Pears, Hörauf, & Brown, 2022).

Companies that are subject to the CSRD are expected to report according to the **European Sustainability Reporting Standards (ESRS)** developed by the European Financial Reporting Advisory Group (EFRAG) (for the final structure of the ESRS see Chapter 2, p. XX). The standards will be adjusted to EU policies. In parallel, they will build on and contribute to international standardisation initiatives. The Commission is supposed to adopt the first set of standards by mid-2023, based on the draft standards published by EFRAG (EC, n.d. a).

The regulations mentioned above at the EU level already have and will continue to have an intensive impact on the ESG landscape. Decarbonisation, circular economy, energy transition, sustainable sourcing and land use, waste management, e-mobility, sharing economy, diversity and inclusion, respect for human rights, consumer protection, sustainable investments, corporate governance, and business ethics topics create a non-exclusive list of critical issues for ESG transformational adaptation (see Figure 12.1).

They also enforce a need for new forms of corporate ESG commitment guiding the execution of ESG strategy and sound ESG performance measurement systems. It is crucial to combine ESG commitments with ESG performance assessment; otherwise, corporate communication may become rife with 'greenwashing' or 'social washing', thus a narrative of companies marketing their environmental or social commitment without any substance expressed in real actions (Dearnell, 2022).

Depending on the ESG commitment degree and the quality of the ESG performance measurement system, there is a possibility to determine the ESG maturity level⁹ and a need for transformational adaptation, which may require implementing new technologies or practices, reshaping governance structures or systems, or changing the location of activities in response to climate change and its impacts (IPCC, 2014a, p. 80).

12.2. Formulation of ESG Strategy as a Prerequisite for Business Model Reinvention and Sustainable Performance Management

Under the CSRD, the companies to which the regulation applies must establish time-bound targets related to sustainability (Directive 2022/2464/EU). Moreover, they have to report on the progress that was made to meet those targets. The CSRD implies that ESG reporting is no longer voluntary for some organisations. The legal requirement to mandatorily report on sustainability issues puts in-scope companies under pressure to ingrain ESG aspects into the corporate strategy, policies, programs and business model.

Before developing an **ESG strategy**, the company should identify and map **ESG factors** relevant to business activity and those that impact the external environment (Figure 12.2).

The company should address these factors across three dimensions, including environmental (i.e., how business operations affect the environment and vice versa), social (i.e., how business operations affect its people and communities) and governance (i.e., how a company behaves and governs). In this regard, it may be helpful to consider what stakeholders have at stake.

⁹ Sari, Hidayatno, Suzianti, Hartono, and Susanto (2021) attempted to develop a corporate sustainability maturity model. They determined three maturity levels. Immature organisations that do not define their sustainable processes or apply them *ad hoc* stand for the initial sustainability maturity stage. Organisations which define their sustainable processes, establish some standards, and figure out indicators but do not measure them represent the managed stage. Mature organisations which measure sustainable performance and assess process improvement actions or programmes are in the optimised sustainability maturity stage.

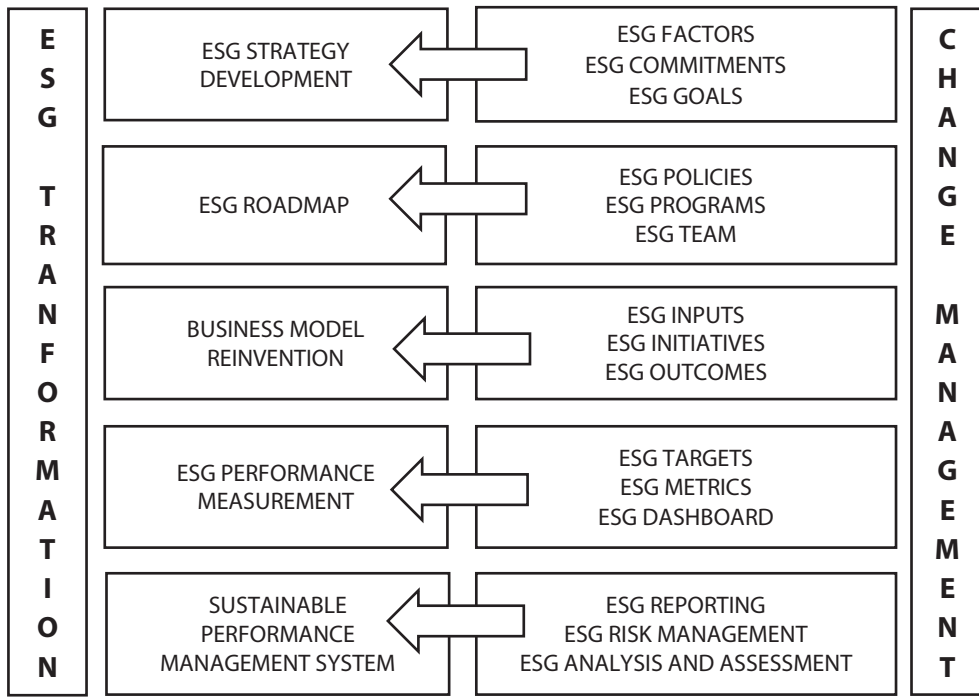


Figure 12.2. From ESG strategy to sustainable performance management system

Source: own presentation.

Then, the company should formulate **ESG commitments**. Following the Oxford Dictionary, a commitment is *a promise to do something or act in a particular way*. Legal Information Institute of the Cornell Law School emphasises that commitment *can refer to a contract or an obligation to undertake something, often regarding financial or moral responsibility*. Thus, ESG commitment may be defined as a pledge of the company to comply with values and standards relevant to achieve a more sustainable future for the company, stakeholders and the planet. Selecting ESG factors and formulating ESG commitments helps set ESG goals and targets that should be connected with Sustainable Development Goals (SDGs).

ESG strategy development is a prerequisite for the delineation of the **ESG roadmap**. A solid ESG roadmap should start with establishing **ESG policy** which serves as a blueprint for sustainable corporate management and reflects a documented approach to ESG aspects by outlining all business practices towards becoming a sustainable aware organisation. ESG policy should inform about the organisation's ambitions on specific aspects, articulate approaches to them, and indicate stakeholders that will need to abide by these procedures. In other words, formulations of ESG policies define the ESG programme's intent

(Kirby, 2022). In order to initiate an **ESG program**, a company must have its **ESG goals** established. Then, it is important to determine the **ESG initiatives**, required resources and expected outcomes, which will account for an essential part of the new sustainable business model. Types of ESG initiatives may depend on the company's capacity, its budget, and stakeholders' needs. The survey carried out by Deloitte (2022) on 2,083 C-level executives from 21 countries proved that among the top 5 initiatives taken were:

- using more sustainable materials (67%),
- increasing the efficiency of energy use (66%),
- using energy-efficient or climate-friendly machinery, technologies, and equipment (57%),
- training employees on climate change actions and impacts (57%),
- reducing the amount of air travel post-pandemic (57%).

On the other hand, Deloitte (2022) also reported on harder-to-implement, needle-moving initiatives that included:

- developing new climate-friendly products or services (49%),
- requiring suppliers and business partners to meet specific sustainability criteria (46%),
- updating/relocating facilities to make them more resistant to climate impacts (44%),
- incorporating climate considerations into lobbying/political donations (40%),
- tying senior leaders' compensation to environmental sustainability performance (37%).

ESG program may be successful if there is a unique team responsible for the smooth implementation and regular monitoring of the ESG program. Such a team should consist of at least one executive representative, stakeholder representatives, in-house team members focused on sustainability, and an external consultant if required (Conservice ESG, n.d.). In addition to having an effective **ESG team**, it is important to rethink the business model and reinvent it to deliver on ESG goals. The necessary changes may be needed in business operations, products and services, organisational routines (practices, policies and procedures) and corporate ecosystem regarding partnerships and relations in the value chain. Joyce and Paquin (2016) present a new tool to underpin the creation of sustainable business models, which is called the **Triple Layer Business Model Canvas (TLBMC)**. This solution complements and extends the original business model canvas of Osterwalder and Pigneur (2010) with new layers that analyse environmental and social value creation. The environmental layer builds on an environmental impact of a product or service life cycle, whereas the social layer focuses on a stakeholder management approach to capture an organisation's social impact (Joyce & Paquin, 2016).

The next vital step is sustainable performance measurement which involves setting clear targets related to concrete actions and ESG metrics. **Sustainable**

performance measurement may be challenging due to several reasons. First, the choice of KPIs may be selective, and responsible persons should decide which metrics are the most appropriate regarding organisational needs and stakeholders' expectations. Second, it is crucial to focus on metrics which present a balanced view of the performance, signalling both positive and negative aspects. Third, it is essential to have a reliable and stable data source for calculating KPIs to ensure the credibility and comparability of ESG results. Finally, for the sake of clarity, it is helpful to present the ESG metrics in the form of a dashboard. In September 2020, World Economic Forum, in collaboration with Deloitte, EY, KPMG and PwC, prepared a document: *Measuring stakeholder capitalism towards common metrics and consistent reporting of sustainable value creation* [WEF, 2020]. It includes a set of core¹⁰ and expanded¹¹ metrics and disclosures on non-financial factors for stakeholders. The metrics represent four pillars aligned with the SDGs and major ESG domains (principles of governance, planet, people and prosperity) and can account for a good framework for ESG metrics' first choice.

ESG metrics can help in **sustainable performance management**, particularly when an organisation has established clear targets and developed a roadmap to monitor progress in meeting those targets. Regular revision of business operations and implementation of resilience plans to boost ESG performance may build a strong ESG position resulting in value creation for various stakeholder groups.

The existing TCFD (Task Force for Climate-Related Financial Disclosures) recommendations present climate-related risks and opportunities and their potential financial impacts, however, on the organisations only (TCFD, 2017). Thus, these recommendations are focused mainly on the perspective of the company and its investors as the primary stakeholder group, which may be seen as a limitation. On the other hand, the CSRD offers the double materiality concept, which mandates companies to report how sustainability issues affect their business and how their own activities impact people and the environment. The environmental risks created by the company influencing people and the planet include emitting GHG into the atmosphere, discharging pollutants into soil and groundwater, creating disturbances like noise and lights, overusing non-renewable resources, etc. The social risks severely affecting people include creating inequalities, precluding diversity and inclusion, neglecting health and

¹⁰ *Core metrics: A set of 21 more-established or critically important metrics and disclosures. These are primarily quantitative metrics for which information is already being reported by many firms (albeit often in different formats) or can be obtained with reasonable effort. They focus primarily on activities within an organization's own boundaries* [WEF, 2020, p. 6].

¹¹ *Expanded metrics: A set of 34 metrics and disclosures that tend to be less well-established in existing practice and standards and have a wider value chain scope or convey impact in a more sophisticated or tangible way, such as in monetary terms. They represent a more advanced way of measuring and communicating sustainable value creation* [WEF, 2020, p. 6].

safety issues, etc. The governance risks that may affect people and social relations include a lack of policies and standards regulating relations with stakeholders, failure to recognise bribery and corruption problems, lack of fair remuneration principles, etc.

ESG risk identification and mitigation are the major elements of managing sustainable performance. Therefore, ESG risks should be incorporated into the **Risk Appetite Statement (RAS)**, which is a part of the **Risk Appetite Framework (RAF)**. RAS articulates the aggregate level and types of risk that an organisation can accept or should avoid in order to achieve its strategic objectives, whereas RAF reflects *policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored* (FSB, 2013, p. 2). Due to such an approach, it can be ensured that ESG risks will be regularly reviewed, monitored and managed by risk holders who have the skills, knowledge and expertise adequate to tackle sustainability threats.

12.3. ESG Strategy in ESG-Risk-Sensitive Companies – Evidence from Poland

This research study aims to analyse and assess whether the most ESG-risk-sensitive companies in Poland developed ESG strategies. The first step in selecting the research sample was identifying companies affiliated with the WIG-ESG index from the Warsaw Stock Exchange. The WIG-ESG index was published for the first

Table 12.3. The research sample

Company name	Affiliation to sectoral indices/ activity scope	ESG Risk Rating	Rating date
PGE	WIG-energy / power industry	49.0	28.05.2022
Grupa Azoty	WIG-chemistry / basic chemistry	47.3	16.01.2023
Enea	WIG-energy / power industry	43.8	20.01.2023
Bogdanka	WIG-mining / coal mining	41.5	18.01.2023
Tauron	WIG-energy / power industry	38.6	27.12.2022
JSW	WIG-mining / coal mining	36.1	20.01.2023
Bumech	No affiliation / mechanical equipment	35.6	12.08.2022
Alior	WIG-banks / commercial banks	33.8	05.08.2022
PKP Cargo	No affiliation / transport	33.2	16.01.2023
XTB	No affiliation / brokerage activity	32.6	25.01.2023
KGHM	WIG-mining / metal mining	32.4	04.02.2023
Budimex	WIG-construction / general construction	32.2	10.01.2023

Source: own presentation based on data from Sustainalytics (as of February 4, 2023).

Table 12.4. The research results on ESG strategy

Company name	ESG strategy	Comments
PGE	⊕	PGE Group adopted its 2030 corporate strategy with an outlook to 2050. The strategy sets out the directions for the energy transition, the decarbonisation and the pathway to climate neutrality. Environmental aspects are firmly embedded in the corporate strategy and account for one of three strategic priorities named 'Environmentally friendly energy'. The inclusion of environmental aspects in the corporate strategy was the first step towards implementing structured management of the ESG area in the Group (PGE, 2022).
Grupa Azoty	●	A separate ESG strategy of Grupa Azoty for 2021–2030 was developed in response to the needs and expectations of stakeholders. It confirms an understanding of the Group's impact on its environment and climate. The Group's priority under the ESG strategy is sustainable development, which will be implemented by taking measures to protect the environment, care for society and manage corporate governance responsibly. The actions taken in these areas were structured within the ESG strategy, which includes five strategic pillars: climate and environment (E), sustainable products (E), sustainable supply chain (E, S), immediate environment (S, G), and friendly and safe workplace (S, G) (Grupa Azoty, 2021).
Enea	⊕	In 2021, Enea made an effort to update its developmental strategy so that it fully responds to the new external environment and enables a credible and effective transformation of the organisation in line with the new assumptions of energy transition in Poland. The company revised its strategy up to 2030 with a perspective up to 2040. The transformation will be based on separating generation assets powered by coal and lignite from the structures of power groups. Enea decided to focus on three strategic elements: climate neutrality by 2020, energy storage and the company's important place in the distributed energy model. Thus the developmental strategy of Enea reflects environmental (E) aspects – green change – as an overarching goal (Enea, 2021).
Bogdanka	⊕	Bogdanka informed on its website that works on updating the business strategy, including ESG aspects, had started in 2022. The document was expected to be adopted in autumn 2022. However, at the beginning of February 2023, it was still not publicly available on the corporate website. The ESG strategy will shed light on the same areas as the previous social responsibility strategy but with a focus on ESG factors, taking into account the perspectives of diverse stakeholder groups, legal considerations, market trends and a long-term plan for a so-called just transition and the challenges facing the mining industry. The previous strategy for 2018–2021 referred to environmental, social and governance issues, which was reflected in the four strategic objectives: (1) to guarantee the highest level of occupational safety, (2) to reduce the impact of operations on the safety of the local natural environment, (3) to ensure the safety and stimulate the development of the local community, and (4) to transparent and responsible management practices (Bogdanka, n.d.).
Grupa Tauron	⊕	Grupa Tauron adopted its 2022–2030 corporate strategy with an outlook to 2050. The Group's overarching goal is to build its value through modern customer and climate solutions while maintaining financial stability. The Group has set three priorities in its strategy: sustainable operations (i.e., the transformation towards climate neutrality), growth based on the largest customer base (i.e., becoming a leader in reliability in electricity and heat distribution and customer sales and service) and becoming an organisation that follows change (i.e., be one with a stable financial position supported by an effective and efficient organisation) (Tauron, 2022). Although it is difficult to find in these strategic priorities an apparent reference to social and governance dimensions, and only the first priority reflects the environmental issues, further on, there is a mention of the Group's sustainable development as well as a description of action directions and objectives in ESG areas.

JSW	☉	JSW adopted its 2022–2030 strategy and set out the overarching goal, which is a value growth of the capital group. The company has incorporated an additional perspective – people and environment – into the standard four dimensions of the balanced scorecard (i.e., finance, customer, internal processes and development). In the additional dimension, JSW Group aims to reduce its carbon footprint by 30% by 2030 compared to 2018, move towards climate neutrality in 2050 and continue to raise its high safety standards (JSW, 2022). The social and governance aspects are not evidently embedded in strategic perspectives. Further on in the 2022–2030 strategy document, there is a reference to sustainable development and company social and environmental initiatives, but still, there are no mentions of social and governance goals.
Bumech	○	The latest published management report for 2021 shows that Bumech does not have an ESG strategy. However, the Board plans to include environmental aspects, climate change metrics and risks, and sustainability issues in its business strategy. Regarding social and labour issues, including measures taken and planned to ensure gender equality, sound working conditions, respect for employees' rights, dialogue with local communities, and customer relations, the company emphasises that it will be able to apply this but to a limited extent (Bumech, 2021, pp. 23, 24).
Alior Bank	☉	Alior Bank presented its new strategy 'Bank for every day, bank for the future' in February 2023. The strategy focuses on everyday banking, customer convenience, and business development. There are three pillars of Alior Bank's strategy: a higher culture of mobility, support for entrepreneurship and a modern bank. The Bank wants to be a strong institution focused on building a core relationship through digital channels. ESG elements are included in the strategy, not at the front of it, but later on at the very end. Alior Bank stresses that it will be responsible for the social processes around it, respond to contemporary environmental and climate challenges, and apply the highest management standards. All these areas are connected with particular SDGs (Alior Bank, 2023).
PKP Cargo	○	The 2019–2023 corporate strategy of PKP Cargo was revised at the beginning of 2023. However, it does not include ESG aspects (PKP Cargo, 2018).
XTB	●	XTB developed its ESG strategy based on three pillars: environment, social responsibility and corporate governance. For these three pillars, the company determined activities that support UN Sustainable Development Goals (XTB, 2021).
KGHM	☉	KGHM has prepared a new corporate strategy until 2030 with a 2040 horizon. The mission and vision have remained unchanged from the previous strategy. However, to reflect changes in the environment, the existing four strategic development directions (Flexibility, Efficiency, Ecology and E-industry) were updated with an additional fifth element – Energy. The new strategy refers to social aspects by outlining the company's ambitions in this area and how their achievement will be measured in 2030. KGHM also emphasises that the strategy's objectives are consistent with the company's climate policy and its targets for 2030 and 2050. The company presents in its strategy the main directions of decarbonisation and the planned efforts towards them (KGHM, 2021).
Budimex	☉	Budimex developed a CSR strategy for 2021–2023 that is not exactly an ESG strategy but contains some elements relevant to ESG aspects. The CSR strategy of Budimex is based on six pillars that refer to: (1) ensuring the highest standards of safety and occupational health, (2) limiting a negative impact on climate and environment, (3) nurturing employee development and job satisfaction, (4) maintaining quality and innovation, (5) countering frauds, and (6) conducting dialogue and supporting local communities. For each pillar, the company outlines several strategic objectives. An interesting part of the CSR strategy is the attempt to measure the degree to which these objectives will be achieved by pointing out measures and their thresholds. Budimex also presents actions taken to reach these objectives and the departments involved in monitoring the measures level (Budimex, 2021).

● Standalone ESG strategy; ☉ some ESG aspects in a corporate strategy; ○ no ESG context in a corporate strategy. The study period is 1–08.02.2023.

Source: own presentation based on publicly available information from companies' websites.

time on September 3, 2019. It replaced the RESPECT index launched in 2009. Currently, the index comprises 60 companies from various sectors. They adhere to socially responsible business principles, particularly environmental, social, economic and corporate governance issues. All companies from the WIG-ESG index except for two participate in Sustainalytics' ESG Risk Ratings, which cover more than 16 thousand companies worldwide across 42 industries. This rating measures the exposure of the particular company to industry-specific material ESG risks and how well the company manages them. Following the Sustainalytics methodology, the final ESG Risk Rating score measures unmanaged risk, understood as material ESG risk that a company has not managed. This unmanaged risk covers unmanageable risks which cannot be addressed by company initiatives and risks due to management gaps that could potentially be sufficiently managed but are not according to the Sustainalytics assessment (Sustainalytics, 2021, p. 11).

Based on Sustainalytics' ESG Risk Rating, the companies from the WIG-ESG index with severe (≥ 40.0) or high (≥ 30.0) ESG risk were sorted out (Table 12.3).

The study indicated that approximately 20% of the companies in the WIG-ESG index had a severe or high ESG risk. The most ESG-risk-sensitive companies came from the power industry (PGE, Enea), chemical industry (Grupa Azoty) and mining industry (Bogdanka). Among the remaining eight companies characterised by high ESG risk, those operating in the following areas of the economy can be distinguished: the power industry (Tauron), coal mining (JSW), metal mining (KGHM), construction (Budimex), mechanical equipment (Bumech), transport (PKP Cargo), and interestingly, banking (Alior) and brokerage activity (XTB). Having a sound ESG strategy in companies from the power, chemical and mining industries seems particularly crucial since they are much more than other organisations exposed to different material ESG risks, and their management of relevant ESG risks may not work correctly due to the lack of adequate ESG programs, practices and policies.

In the next step of the research procedure, the presence or absence of an ESG strategy in the researched companies was investigated. The initial research results are included in Table 12.4. The results indicate that only two out of 12 companies have a standalone ESG strategy. Two companies did not have any ESG aspects included in their corporate strategy. The remaining eight organisations are gradually progressing in reformulating their corporate strategy with ESG aspects but with varying results. Based on these results, it can be stated that Polish ESG-risk-sensitive companies are in an ESG transition phase. Embedding ESG issues in a company's strategy is the first step to remodelling the business and assessing sustainable performance while having a separate ESG strategy is an expression of awareness of changing environmental conditions and societal demands.

It is, therefore, worth looking at the practices of two Polish companies that have made considerable progress in this area. Grupa Azoty developed a 6-page

standalone document of an ESG strategy of which the first page does not include any merit-related content – it is a title page. The company emphasises that sustainable development will be its priority by 2030, while ESG actions will be conducted within five strategic pillars. Strategic priorities were formulated for each pillar. Moreover, Grupa Azoty expressed its commitments across each pillar by addressing concrete actions that will be taken to make strategic priorities a reality. The last three pages were dedicated to three dimensions: environmental, social, and governance. Each dimension has been assigned a primary objective, SDGs and strategic pillars, strategic priorities have been identified within the pillars, and sub-objectives have been set for each priority (Figure 12.3).

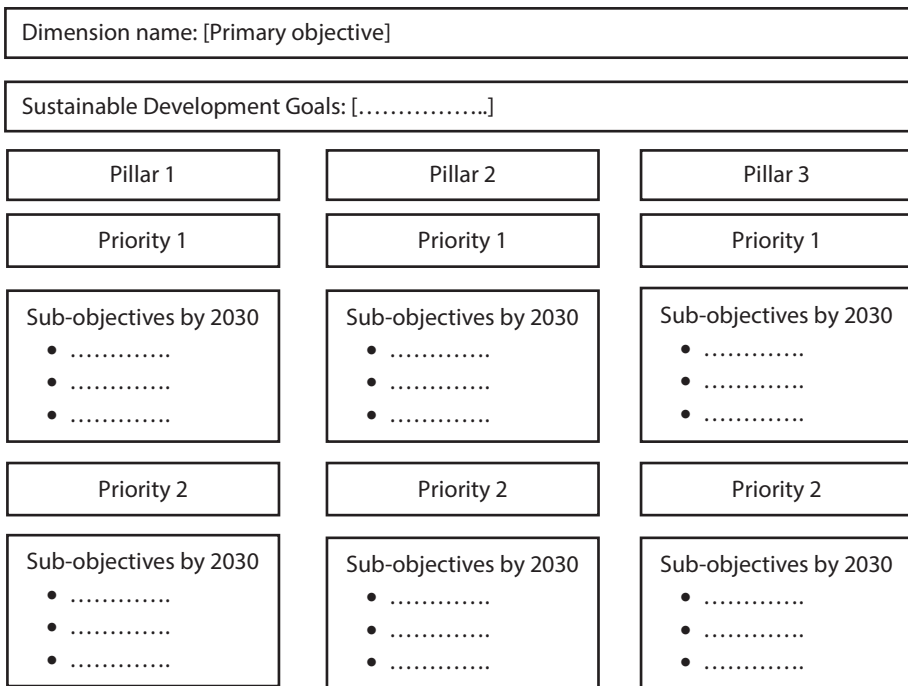


Figure 12.3. Presentation scheme of pillars, priorities and strategic objectives regarding one of an ESG dimension

Source: own presentation based on (Grupa Azoty, 2021).

XTB, the investment and FinTech company specialising in financial instruments trade, prepared a 22-page document of an ESG strategy. The first page does not include any merit-related content – it is a title page. On the second page, the company presents itself and its values. After that, there is a description of ESG strategic pillars covering the environment, social responsibility and corporate

governance. Each pillar has assigned activities supporting SDGs. The following pages are dedicated to more extensive descriptions of activities within each pillar. However, this is done in a chaotic way since there is no order in presenting particular activities.

12.4. Conclusions

Interestingly, the analysis of corporate strategies of ESG-risk-sensitive companies in Poland proves that possessing a standalone ESG strategy ensures that companies focus on three dimensions: environmental, social and governance in a balanced manner. The problem is the way how these aspects are presented – the case studies of Grupa Azoty and XTB evidence that more is not always better. The shorter ESG strategy of Grupa Azoty seems more structured and transparent than the very long document presenting the ESG strategy of XTB.

Another issue is that companies that have not developed a separate ESG strategy but have only embedded one or two ESG dimensions in their corporate strategy have not done that inappropriately. PGE, for instance, has described the sustainable energy transition process in great detail in its corporate strategy. The company further emphasised that sustainable transformation is about creating value in financial, social and environmental terms. Although the company's primary focus is on environmental issues and the pursuit of climate neutrality, the level of exploration of this topic and the way it is presented in the strategy can meet the stakeholder's information needs.

Concluding, it must be emphasised that a sound ESG strategy may trigger business transformation towards a green, accountable and sustainable future. Based on the study presented in this chapter, it may be stated that ESG strategy was not a myth in most of the ESG-sensitive companies examined, but it has become a reality. Although organisations represent varying levels of engagement in this regard, they are gradually progressing in reformulating their corporate strategy and including ESG aspects. It is vital since ESG strategy development is a prerequisite for the next vital stage – delineating the ESG roadmap. Based on ESG roadmap components, the organisation can start its transformation journey and reinvent its business model to deliver on ESG goals. Nevertheless, ESG transformation may be challenging for many organisations since it refers to many areas. The EU Taxonomy, for instance, expects that economic activity must substantially contribute to at least one of the six environmental objectives, including: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. Moreover, while pursuing one or more of these objectives, the organisation cannot cause significant harm to any of the other Taxonomy objectives and should respect fundamental human rights and labour standards

(EC, n.d. c). Integrating all business actions under the sustainability umbrella may be difficult, especially when moving from ambition to execution. According to Santamarta et al. (2022), the main problems that may arise are identifying the most significant impact, putting the right transformation engine in place, and funding the transformation journey.

The results of the case studies analysis presented in this chapter cannot be generalisable, which is a limitation. The research sample selection was purposeful and focused on analysing the most ESG-risk-sensitive companies. Moreover, the sample included entities representing various industries, which may cause the comparison difficult. Nevertheless, it is worth studying the process of ESG strategy formulation in its early stage. Today, many entities focus on how to build a standalone ESG strategy or make it a part of a larger business strategy, but tomorrow they will wonder how to implement it and with what tools, and then finally, it will come time for verification, critical assessment and reflection.

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