UNIVERSITÀ
DI PAVIA

DEPARTMENT OF ECONOMICS AND MANAGEMENT

MASTER PROGRAMME IN INTERNATIONAL BUSINESS AND ENTREPRENEURSHIP

ESG and Compliance: A New Era in Corporate Governance

ESG e Conformità: Una Nuova Era nella Governo Aziendale

Supervisor:

Prof. Paolo Benazzo

Discussant:

Student:

Gunay Muradova

Matr. n. 501863

Academic Year 2023-2024

Table of Contents

Abstract

Analysing three companies in the energy sector from different European Union member states that are major players in the market, this study aimed to explore the transformation of corporate governance toward a future that places more importance on sustainability, using a case study method. Findings suggest that the regulations regarding sustainability are constantly changing, taking more and more companies under their scope. The companies are trying to comply with these regulations to make sustainability one of their primary focuses and integrate it into their corporate strategies. Generally, the thesis highlights the changing corporate law and the actions the three European companies which are major players in the energy sector, take to comply with the new regulations to stay competitive in the industry by integrating sustainability into corporate strategies.

L'analisi di tre aziende del settore energetico di diversi membri dell'Unione Europea che sono importanti attori del mercato, questo studio ha voluto esplorare la trasformazione della governo aziendale verso un futuro che attribuisce maggiore importanza alla sostenibilità, utilizzando il metodo dello studio di caso. I risultati suggeriscono che le normative in materia di sostenibilità sono in costante evoluzione, coinvolgendo un numero sempre maggiore di aziende. Le aziende cercano di conformarsi a queste normative per rendere la sostenibilità uno dei loro obiettivi principali e integrarla nelle loro strategie aziendali. In generale, la tesi evidenzia l'evoluzione del diritto aziendale e le azioni che le tre aziende europee, che sono i principali attori del settore energetico intraprendono per conformarsi alle nuove normative e rimanere competitive nel settore, integrando la sostenibilità nelle strategie aziendali.

Keywords: sustainability, ESG, companies, stakeholders, environmental, social, corporate governance, compliance, business

I. Introduction

Today, many companies, organisations, societies, and people, especially youth are concerned about environmental, social, and governmental issues regarding companies. Sustainability goes beyond just climate change, and the role the companies have in environmental issues, they have a huge power in protecting the environment and supporting bigger issues such as human rights thus, this power caught the attention of investors, consumers, politicians, and many other stakeholders. Companies, especially large companies operate big value and supply chains that threaten the Earth, global warming, air, water, and land pollution, excessive use of resources, and human rights and may cause many problems within themselves if not governed properly. But it's one thing to guess about how big the impact is, and another thing – to know for sure, it is one thing to worry about the environment, and another thing – to take action.

Even though ESG (environmental, social, and governance) awareness started around the 1960s, ESG compliance can be considered a newly emerged term since it was put together in the last 20 years but it is a raging phenomenon in today's world. ESG factors have become crucial aspects of investment, corporate decision-making, and earning stakeholders' trust. The concept of ESG factors emerged in response to growing concern about businesses and their activities, in which stakeholders claim that businesses should not solely focus on financial returns but also consider their impacts on broader environmental and social issues. Pressure from socially responsible stakeholders pushes businesses not only to promise empty words about environmental responsibility but actually implement their words into their business strategy.

The phrase ESG was popularly used in 2004 in the report titled "Who Cares Wins" for the first time ever. The report "Who Cares Wins" was the result of the joint initiative of financial institutions which were invited by the United Nations in order to develop guidelines and recommendations on how to better integrate environmental, social and corporate governance issues in finance-related matters (United Nations Environment Programme Finance Initiative, 2004). In 20 years, ESG has grown to become more than a term used by the United Nations to advocate for corporate social responsibility, it is a global phenomenon that forces stakeholders to take it into account before forming relations with a company.

The environmental dimension has a nature-friendly meaning, but it can also be understood from the perspective of natural resources as a business environment that includes climate change, nuclear energy, and sustainability. In other words, environmental factors indicate the impact of a company's activities on nature. This ranges from carbon emissions, greenhouse gases, resource consumption, waste production, and general environmental impact. As the concerns about climate change rise and environmental degradation grows, stakeholders have started to demand greater transparency and accountability from businesses regarding their environmental performance.

The social dimension focuses on diversity, equality, human rights, and consumer advocacy. This factor encompasses a wide range of issues related to the company's impact on its stakeholders from its employees and customers to its suppliers and society as a whole. There is a special focus on labour practices, employee relations, diversity and inclusion, consumer protection, and community engagement.

Companies that embrace social responsibility may implement fair labour practices, ensure safe working conditions, promote diversity and equal opportunities, support community development initiatives, and adhere to ethical marketing and customer privacy.

The governance dimension refers to how power is exercised within the organisation. It focuses on organisational leadership and performance, corporate strategy development, and corporate decision-making. The emergence, organisation, and dynamics in the composition of the board are included in it. Corporate governance is the process by which an organisation defends the interests of the stakeholders, which can include board members, company executives, employees, stockholders, suppliers, customers, and the community in which the organisation operates (Tarantino, 2008). Good governance is necessary to ensure that businesses are run ethically, transparently, and in the best interest of all stakeholders.

Compliance and Governance

All firms exist within a nexus of legal, regulatory, and social norms (Griffith, 2016). The concept of compliance means firms adapt their activities in relation to these norms. In other words, compliance is a collection of rules and procedures designed to make sure the company's practices are in line with the requirements of the law. Firms need to identify not only up-to-date and applicable but also, foreseeable regulations, enforce the regulations set by law within the organisation, and take other actions to fulfil the requirement of national or international law. Compliance rules are decided and set externally by the national governmental or other international regulatory authorities. They are respectfully adopted by companies that fall under their scope. However, it is mandatory to comply with the law. If a firm does not comply with the set law, it is obligated to state why it is not complying and what other substitutive actions it has taken in order to be in line with the law. Failure to comply or show reasons for non-compliance may trigger legal actions being taken against the company which in return may result in huge financial penalties that are much higher than the cost of compliance.

Corporate governance is the set of mechanisms by which corporations are directed and controlled (Griffith, 2016). Governance may be related to the firm's general objectives and other organisational-level goals. The main goal of governance is to guarantee that corporate strategy is enforced while internal policies of the company are executed without hindrance.

Governance targets to elevate responsibility and create controls for the structured execution of the law. Governance includes the policies and regulations set within the organisation by board members, shareholders, and executives to achieve the goals and objectives of the company. These regulations have a wide range and may vary from laying down standards to form a company culture to other kinds of rules that are strictly specific to the organisation. Since these rules are set by the company itself they can be considered as non-mandatory. The consequences of violating these regulations are decided by the company itself and may result in demotion, termination of employment, or other kinds of corporate penalties.

Compliance and governance are interrelated. There is always a need for an internal control system that oversees the company's activities in order to make sure it is complying with the law. While governance establishes the organisation's outlook towards the rules, ethics, and compliance in general, compliance incorporates that outlook corresponding to particular regulations. Compliance is an inseparable part of management. Therefore, it is necessary to see compliance as a duty of governance, monitor the legitimacy of the firm's activities, and ensure that the firm is following the law. The principal duty of governance regarding compliance is to keep an eye on and have control over compliance issues.

Research objectives

The objectives of this research are several. Firstly, there is a need to examine the evolving concept of environmental, social, and governance factors and their integration into corporate governance frameworks in the business landscape of the European Union. Secondly, this research tries to assess how corporate law switched its focus from shareholders to stakeholders as a whole, and compliance with ESG regulations. Thirdly, this paper analyses the case studies of companies within the European Union, examining the best practices and lessons learned. Furthermore, this study attempts to contribute to existing ESG and compliance research and provide a reference for future research opportunities in the field.

This research aims to contribute to the advancement of ESG practices. As ESG practices gain importance, integrating them into corporate governance becomes crucial for firms to enhance their performances, and align their activities with the expectations of stakeholders. The study's findings can contribute to the development of improved corporate governance practices that prioritise sustainability and responsibility. Moreover, the study contributes to the growing body of research in the field of ESG and compliance in European companies.

This study consists of the following sections: A literature review section that dives into the background of sustainability and ESG factors in the world and in the European Union; a methodology section that explains the research method used; a discussion section that analyses the findings of the case study and a conclusion section that states concluding remarks, limitations and further study possibilities.

II. Literature review

Definition and conceptualisation of ESG and compliance

ESG is an acronym that stands for environmental, social, and governance factors. These are used to evaluate a firm's performance and impact beyond financial metrics. In recent years ESG has gained remarkable prominence as the stakeholders recognised the benefits, opportunities even negative effects that come with it.

Environmental factors cover all the impacts companies have on nature. Environmental factors in ESG range from climate change, and resource efficiency to biodiversity and conservation.

Climate change specifically refers to the company's carbon footprint and its attempts to reduce its carbon footprint as well as its other negative impacts on nature. Companies that prioritise renewable energy, reduce their greenhouse gas output, implement company-wide sustainability practices, and educate all of their executives and employees about relevant sustainability practices are the ones that are deemed environmentally responsible. In addition, firms are evaluated on how efficiently they use resources such as raw materials, land, and water, as well as, how they deal with resource scarcity. The efforts to protect biodiversity and ecosystems are the most important aspects of an organisation's environmental performance.

Social factors focus on the company's interactions with people, communities, and society as a whole. Companies are evaluated on their behaviour toward their workforce which includes safe working conditions, fair wages, diversity, inclusion equal employment, and opportunities to learn and grow. Companies also have a duty to prevent human rights abuses and ensure fair treatment. Community engagement and contribution are significant to improve the firm's social standing and reputation among local people. Creating and bonding with the community and supporting local causes are significant aspects of social responsibility.

Governance factors refer to the company's internal structure, policies, and management. The composition of the board of directors, independence, and diversity of directors play a huge role in good governance, transparent decision-making, and accountability. Companies are assessed based on their ethical business practices, such as anti-corruption measures, protection of whistle-blowers, and transparency in financial and non-financial reporting. Fair and reasonable compensation of executives is one of the indicators of good governance as alignment of executive pay with performance and shareholder interests is considered as a foremost practice.

ESG compliance has evolved throughout the years due to growing awareness and concerns related to these matters. ESG surrounds a set of criteria that evaluates companies' performance in the protection of the natural environment, social obligation, and corporate governance. ESG factors are used to evaluate a firm's sustainability and ethical practices to gain long-term value for shareholders while considering the broader effects on the environment and society as a whole.

The roots of ESG compliance can be spotted back in 1960s-1970s. During this period there were ongoing concerns about environmental pollution and abuse of human rights. And because of the energy crisis of the 1970s which was related to the Yom-Kippur War of 1973 and the Iranian Revolution of 1979, attention was drawn towards more responsible management of resources. These events forced stakeholders to focus on the impacts corporations have on the environment and society. As a result 1970s, Socially Responsible Investing (SRI) emerged. With the emergence of SRI, investors were looking for companies with positive environmental and social tracks to invest in while eliminating those with negative records and known for their controversial practices.

In the 1980s the development of Corporate Social Responsibility (CSR) started and gained impeccable importance. Companies began to realise the importance of addressing their practices and taking responsibility for the effects they have on the environment, the communities they operate in, and society as a whole. CSR ranges from the voluntary actions taken by companies themselves to the legal requirements set by national or international authorities in order to improve their social and environmental standing. Every firm carries responsibility towards its employees, customers, suppliers, communities it interacts with, and society as a whole. This responsibility has been conceptualised as Corporate Social

Responsibility (CSR). European Commission[1] (2011) defines corporate social responsibility as “the responsibility of enterprises for their impacts on society” (Griffith, 2016). From the Commission’s point of view, the firms should have a system to incorporate environmental, social, and human rights into their main strategy and business operations, while collaborating with the stakeholders. The main purpose of Corporate Social Responsibility is to increase the recognition, prevention, and diminishment of possible negative effects the firms may have on the environment and society. In addition, CSR makes sure the company creates positive returns on investment which in return benefits all stakeholders of the company. By addressing their social responsibility, the firms can build long-term relationships with all of their stakeholders based on mutual trust which allows companies to innovate and grow.

In 1997, the Global Reporting Initiative (GRI) was established to provide a framework for organisations to report their sustainability performances. GRI helps businesses and other organisations take responsibility for their impacts, by providing them with a global common language to communicate those impacts (Global Reporting Initiative, 2020). The United Nations Global Compact (UNGC) was launched in 2000, as a way of urging businesses to adopt socially responsible policies. The ten principles of UNGC revolve around human rights, labour, environment, and anti-corruption (United Nations Global Compact, 2007).

During the 2000s-2010s ESG considerations gained more traction which gave rise to ESG investing. Investors finally grasped the potential risks and opportunities associated with ESG factors related to their investment decisions. The concept of ESG was initially mentioned in a report titled “Who Cares Wins” written by the United Nations. It was a result of the joint initiative of financial sector institutions. The report focused on the financial sector and was

---

[1] European Commission (2011). COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS A renewed EU strategy 2011-14 for Corporate Social Responsibility.

aimed at raising awareness among all actors in the financial sector, developing guidelines, and giving recommendations on how to better integrate environmental, social, and governance matters in finance-related operations. The main purpose of the paper, aside from creating sustainability and strength in financial markets, was to contribute to sustainable development, as well as, gain mutual understanding with all of the involved stakeholders. The institutions promoting ESG integration were convinced that to stay competitive in the market for the long term the firms need to include ESG in the overall business strategy and manage it as a part of the company's overall management quality (United Nations Environment Programme Finance Initiative, 2004). Companies were asked to take a leadership role by carrying out environmental, social, and governance policies and releasing reports on their performances related to these matters. Furthermore, they should find out and report key challenges and give environmental, social, and governance issues a priority.

As ESG integration grew in importance, there was more demand from stakeholders for more transparency and accountability from firms. Since 2020, there have been increasing incentives from the United Nations to cover ESG factors and make sure organisations are in line with them because the United Nations developed Sustainable Development Goals (SDGs) which were adopted in 2015 as the context of the 2030 Agenda for Sustainable Development. This Agenda provides a shared blueprint for peace and prosperity for people and the planet, now and into the future (United Nations, 2015). There are 17 Sustainable Development Goals in total which calls for collective and collaborative actions from all members in order to meet them. These 17 Sustainable Development Goals include no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, reduced inequalities, sustainable cities, and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice, and strong institutions, partnerships for the goals (United Nations, 2015).

As a part of the climate action goal, the United Nations aims to limit global warming to 1.5°C. However, it is expected for the world to exceed 1.5°C by 2035 and face 2.5°C warming by 2100 (United Nations, 2023). Therefore, there is a rapid need for continuous and sustained decrease in GHG emissions.

United Nations also aims to fight gender inequality. Nevertheless, according to the 2023 Sustainable Development Goals report of the United Nations, the world is not on track to achieve gender equality by 2030. But still, it is proven that legislated gender quotas are effective in politics (United Nations, 2023).

Consequently, the demand for standardised ESG reporting frameworks increased. Organisations like the European Commission, the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TFCD) developed guidelines and recommendations for companies to disclose their ESG-related performances.

In recent years, several countries and regions started implementing mandatory ESG requirements for companies. These regulations aim to ensure firms are held accountable for their operations, disclose all the relevant information about their practices to their stakeholders, and reduce the negative impact companies have on the environment and society to a minimum.

ESG reporting standards and guidelines in the EU

The environmental, social, and governance compliance in the European Union took root in the late 1990s and early 2000s. ESG compliance in the EU has been an important factor in sustainable development, reasonable investment, and corporate social responsibility attempts.

The early foundations of ESG compliance in the EU can be traced back to the late 1990s and early 2000s simultaneously around the same time as various initiatives and frameworks were promoted for sustainability purposes. There was a growing awareness of the environmental and social effects of businesses which led to increased discussions on corporate sustainability. During this period, the United Nations Global Compact (UNGC) and Global Reporting Initiatives (GRI) were established, laying the foundation for ESG compliance, disclosure, and reporting practices.

As the interest in ESG grew, the EU recognised the need for standardised reporting frameworks. In 2014, the European Commission introduced the Non-financial Reporting Directive (NFRD), requiring large public interest firms to disclose non-financial information, including ESG factors, in their annual reports. The NFRD aimed to improve transparency and encourage companies to take their environmental and social responsibilities into account alongside their financial performance.

Later European Union took some additional steps to integrate ESG factors into its financial information reporting. The European Commission launched the Sustainable Finance Action Plan in 2018, with the objective of redirecting private finance toward a more sustainable economy, managing financial risks linked to climate change, and improving sustainable corporate governance in the private sector (European Court of Auditors, 2021). In 2019, the European Commission adopted the Green Deal as a step toward carbon neutrality by 2050. Moreover, according to this initiative, economic growth should be separated from resource use. As a part of this plan, the European Union developed the EU Taxonomy, a classification system that defines whether an economic activity is environmentally sustainable (European Commission, 2020). Moreover, in 2020, the EU introduced amendments to NFRD to align it with international standards, including recommendations for the Task Force on Climate-related Financial Disclosures (TCFD), which released climate-related financial disclosure recommendations designed to help companies provide better information to support market transparency (Task Force on Climate-related Financial Disclosures, 2017). To mention, the EU's Action Plan on Financing Sustainable Growth played a prominent role in ensuring that financial institutions and asset managers integrate ESG factors into their investment decision-making process, and provide transparency to stakeholders.

In 2022, the European Commission approved the Corporate Social Responsibility Directive, which demands firms report on the effects of their business activities on the environment and society as a whole. The CSRD requires the audit or assurance of the reported information. Alongside the CRSD, the European Commission also introduced the first set of the European Sustainability Reporting Standards (ESRS). These standards establish the common standards for the companies operating within the European Union and help them to report ESG-related information in a standardised manner across the framework.

In 2023, the European Parliament reached an agreement on their position on the Corporate Sustainability Due Diligence Directive (CSDDD). The CSDDD requires companies to practice due diligence and advance respect for human rights and environmental protection, and increase accountability for adverse impacts (European Commission, 2022).

Transformation of corporate law to more compliance with ESG

In recent years, the corporate law landscape has gone through some transformation as it transitioned from a traditional shareholder-focused model to one that places increasing prominence on environmental, social, and governance factors. This transition is a result of grasping the importance of ESG factors among firms, institutions, and stakeholders, and growing recognition of long-term sustainability, social responsibility, and ethical practices are crucial components in the success of business.

Historically, corporate law focused on maximising shareholder value. The primary duty of the board and management was aimed at delivering maximum profits to shareholders. While this approach led to remarkable economic growth, it also raised concerns about the negative impacts associated with unexamined corporate behaviour, such as environmental degradation, exploitation of labour, and social inequality.

The emergence of an awareness of global climate challenges such as climate change, social inequality, and corporate misconduct forced an evolution in the shareholder-focused approach. All the stakeholders, including investors, shareholders, consumers, regulators, and activists began to demand greater corporate accountability and transparency. As a result, the concept of ESG gained traction, advocating for businesses to not only take financial performance but also consider their impact on the environment and society.

The transformation to corporate law with ESG compliance is a gradual process. Governmental, national, or international authorities have introduced new legal frameworks and requirements that encourage or mandate firms to integrate ESG factors into their decision-making process and investment decisions.

This shift also showed itself in European corporate law. This transformation is a reflection of bigger global trends that move towards more environmentally and socially responsible and sustainable business activities. It is driven by the purpose of creating long-term value for stakeholders, as well as preserving the peace of environment and the society.

Like in other parts of the world, historically the corporate law in the EU has been centred around shareholders and focused on their needs, interests, and demands. Focusing solely on maximising the profit for shareholders created a short-term value that was usually at the expense of other stakeholders, such as employees, suppliers, consumers, communities, and the environment. Nevertheless, in recent years there has been an acknowledgement that businesses have a broader range of responsibilities in front of their stakeholders, not just financial gains.

The concept of ESG gained interest as a framework that takes ESG factors into consideration. ESG includes a large range of issues such as climate change, human rights, labour issues, board diversity, and independence.

Several key developments have contributed to the transformation of corporate law in the EU towards greater compliance with ESG factors. Firstly, the EU put a series of regulations in place aimed at promoting sustainable and responsible business behaviour. For example, the EU Sustainable Finance Disclosure Regulation (SFDR) requires financial institutions and market participants to disclose how they incorporate ESG into their investment decisions. Additionally, the NFRD mandates large corporations to disclose non-financial information, including ESG-related matters, in their annual reports. The EU's view on stakeholder engagement has led to a transition in the way firms see their responsibilities. The EU's Shareholder Rights Directive II aims to encourage long-term shareholder engagement to ensure that decisions are made for the long-term stability of a company and take into account environmental and social issues (European Commission, 2019). This emphasis on stakeholder interests encourages businesses to consider the impact of their activities on a broader range of areas. Secondly, many EU member states have established or considered reforms to their corporate governance frameworks to align them with ESG goals. These reforms often include changes to board composition, executive compensation, and reporting requirements to better display the interests of various stakeholders. In fact, there is rising pressure from institutional investors and asset managers to adopt ESG practices. The investor activism focused on ESG issues has grown, leading to advanced accountability and transparency from the organisations. As consumers and the general public became more conscious of the social and environmental impacts companies are under greater pressure to improve their ESG performance. Public awareness campaigns, social media, and advocacy groups have played a huge role in spreading awareness and holding companies accountable for their actions.

Balancing the interests of various groups of stakeholders, ensuring relevant and meaningful information reporting of ESG metrics, and addressing potential conflicts between short-term financial objectives and long-term financial as well as long-term sustainability goals are currently ongoing concerns. However, this switch towards ESG-focused corporate law in the EU is a reflection of a bigger acceptance of the need for businesses to operate in a manner that does not jeopardise the well-being of the environment or society but contributes positively to them.

The transformation of corporate law from a shareholder-centric model to a more ESG-focused one in the EU is a response to the changing business landscape and expectations of society. As the EU continues to implement and refine ESG regulations, businesses operating within the jurisdictions of the EU are encouraged to integrate ESG factors into their business strategies, operations, and decision-making processes. The EU has initiated several directives to motivate businesses to incorporate ESG factors into their business strategies and disclose information related to ESG in their annual reports.

Non-financial Reporting Directive

The Non-financial Reporting Directive, commonly known as NFRD is a remarkable piece of legislation that was aimed at promoting corporate social responsibility among large corporations within the European Union. It was first introduced in 2014, later amended in 2017, and required specific organisations to disclose their non-financial information in their annual reports. The NFRD was part of a more extensive EU strategy to integrate environmental, social, and governance (ESG) factors into corporate reporting and display the importance of sustainability in today's business world. Additionally, NFRD was the beginning of the shift from voluntary ESG reporting in the EU to a mandatory one.

NFRD applied to large public companies, banks, and insurance companies with over 500 employees and required them to publish non-financial information in their management reports, or in separate reports along with their annual financial reports.

The primary goal of the NFRD is to increase transparency and accountability by requiring companies to disclose relevant non-financial information. This information goes beyond traditional financial reporting and includes environmental, social, and governance aspects of the company's operations. The directive aligns the disclosure of companies in its scope with the EU's commitment to sustainable development. In addition, the NFRD aimed to improve the quality and comparability of the disclosed non-financial information by the companies thus raising the investor and stakeholder trust in the company's long-term sustainability and ethical performance.

In order to increase the quality and consistency of the shared non-financial information large companies had to prepare a non-financial statement relating to at least environmental, social and employee-related, respect for human rights, anti-corruption, and bribery matters (European Parliament, 2014).

Relating to environmental matters, companies falling in the scope of this directive had to disclose information about their impact, including greenhouse gas emissions, resource consumption, and attempts to reduce environmental risks.

For social and employee-related matters, the disclosure should cover social aspects of the company's operations such as employee relations, workplace safety, human rights, and labour standards, including diversity and inclusion policies to ensure equal employment. Companies were asked to report on their policies and actions taken to reduce and prevent human rights violations within their operations and supply chains. Moreover, the disclosed statement should include the measures taken to fight corruption and bribery.

As the diversity of the board brings different capabilities, competencies, and points of view to the table and results in brainstorming, and innovative ideas there was a need to establish a diversity policy in the companies. A diversity policy should be in place concerning administrative, management, and supervisory bodies with regard to aspects such for instance, age, gender, or educational and professional backgrounds (European Parliament, 2014). The disclosure of diversity policy should be a part of the corporate governance statement.

The companies were given freedom in choosing which framework to rely on in publishing non-financial information. They could choose to base their reporting on national, Union-based or on other international frameworks.

If a company chooses not to disclose a piece of certain information, it is obligated to provide a clear statement of why it is the case.

Corporate Social Responsibility Directive

The provisions set forth by the NFRD soon proved to be inadequate in scope and content to keep up with the regulatory development (European Commission, 2021). Although supported by the European Commission's several guidelines, the Directive has largely failed to provide a standardised and comprehensive disclosure regime and prevent greenwashing – the main benefits that were expected from a mandatory disclosure framework (Corporate Justice Coalition, 2020). Therefore in 2022, the European Commission adopted the Corporate Social Responsibility Directive, popularly known as CSRD, which is a new piece of legislation for corporate social responsibility of the companies within the European Union. The CSRD is an amendment to the NFRD and raises the requirements for the firms under its scope in order to increase the information on sustainability for the stakeholders. It is also a part of The European Green Deal, in the longer term the outcomes of CSRD are expected to contribute to the transformation of the Union into a modern, resource-efficient, and competitive economy with no net emissions of greenhouse gases (GHG) by 2050 (European Parliament, 2022). The CSRD started to take effect in early 2024 for all the firms in its scope.

The CSRD defines sustainability matters as environmental, social, human rights, and governance factors (European Parliament, 2022). In addition, the CSRD mentions human, intellectual, and social capital but also endorses the importance of research and development.

The CSRD is motivated by double materiality. The concept of double materiality was introduced by the European Commission in its non-binding "Guidelines on Non-Financial Reporting: Supplement on Reporting Climate-Related Information" (Bossut, et al., 2021). Double materiality refers to how the information disclosed by the firm not only has financial relevancy but also includes the information that contains the company's activities that affect the world as a whole. The double materiality considers a larger group of stakeholders since the information published by the company is not only material to the investors but also to consumers, suppliers, employees, and society at large who want to have a better grasp on the company's operations and their impact on the environment and society. Therefore double materiality requires firms to share the risks and opportunities associated with their operations and their impact on the environment and society, as well as how these risks and opportunities will affect the business in detail.

The CSRD aims to enhance the range of reporting requirements that were covered by the NFRD before. It requires the information related to environmental, social, and governance factors to be reported together with the management report, changing the option from NFRD where companies were allowed to make a separate statement about these factors. The CSRD also asks the companies to release sustainability information in a single electronic reporting format in order to establish the global accessibility of it.

The CSRD also establishes the requirement for independent assurance of sustainability information. This need for independent auditing of ESG data stems from the need for the disclosed data to be backed by proven data. The auditor of the company is responsible for evaluating the compliance of the company's sustainability reporting. The responsibilities of the audit committee now also cover sustainability reporting.

The CSRD is constructed on the existing NFRD but it strengthens the legislation and makes reporting more direct and relevant. The first difference from the NFRD is that the term "non-financial" reporting is changed to "sustainable" reporting. According to stakeholder claims, the phrase "non-financial" was not clear enough and required a change that represents a more comprehensible concept. Furthermore, the range of the companies that fall under CSRD increased significantly compared to NFRD. The CSRD applies to large undertakings, and small and medium-sized enterprises which are public interest entities, excluding micro undertakings. Furthermore, for the first time sustainability reporting is made mandatory for third-country undertakings, they should also report sustainability information based on EU law. This aims to establish a "level playfield" for European companies (European Commission, 2021). As is the case under the NFRD, subsidiaries are exempted from their obligation to publish sustainability reports if they are included in consolidated reports of their parents (Baumüller & Grebenic, 2021). With this, the number of companies falling under the scope of CSRD reaches approximately 49000 while the NFRD only covers around 11700 companies.

With the adoption of the CSRD, the responsibility falling on the companies regarding the reporting of sustainability matters increases remarkably since there is an increased amount of information required for disclosure and duties of the boards. The CSRD is the EU’s one-step forward strategy for more explicit and advanced reporting of sustainability matters. At one point it mandates the companies to report all the relevant sustainability information, voluntary reporting is not an option anymore. It is a reactive action to all the criticism against the shortcomings of the NFRD.

European Sustainability Reporting Standards

On July 31, 2023, the European Commission officially adopted the European Sustainability Reporting Standards (ESRS), thereby completing the extensive effort to harmonise disclosures across regulations. These standards are used by the companies to fulfil the requisites of CSRD.

By incorporating the ESRS into the framework, the European Union is urging companies to enhance their efforts in evaluating the risks and impacts related to sustainability within their organisations. These standardised measures serve as the EU's mechanism to ensure that all entities in the sector provide trustworthy and comparable sustainability information. Moreover, the implementation of ESRS is anticipated to decrease corporate reporting expenses in the medium and long term, fostering unity among European companies by discouraging the use of diverse voluntary standards.

The advantages of the common standards outlined by the European Financial Reporting Advisory Group (EFRAG) include increased public responsibility. Additionally, these standards are expected to facilitate easier access to sustainable financing, contributing to a more sustainable and responsible business environment.

ESRS rely on the double materiality principle. Double materiality refers to the consideration of two distinct dimensions of materiality in the context of sustainability reporting: financial and impact materialities. In this framework, companies are required to conduct materiality assessments for both dimensions and report on matters that are deemed material in either dimension across all sustainability-related topics.

1. Financial Materiality: This dimension involves releasing the financial information and evaluating the disclosed finance-related matters which has impact on the stakeholders' decisions. In other words, companies assess whether certain issues have material impact on their financial performance or long-term value creation.
2. Impact Materiality: The impact dimension focuses on the broader consequences and effects of sustainability-related issues on the environment, society, and other stakeholders. Therefore firms analyse the sustainability-related considerations in order to identify if specific matters have material impact on the natural environment, society, or overall sustainability performance.

By addressing both financial and impact materiality, companies aim to provide a comprehensive view of the significance of sustainability-related topics. This dual perspective acknowledges that certain issues may be material from a financial standpoint, while others may be material due to their broader impact on the environment and society.

The ESRS consist of 12 standards that comprehensively cover a wide range of sustainability issues. These standards provide a structured framework for companies to report on various aspects of their sustainability practices, ensuring a more cohesive approach to sustainability reporting within the European Union. The double materiality perspective reinforces the idea that sustainability matters are not only about the impact on external environment of the company but also about the internal effects of these factors on the company's financial well-being. The ESRS are divided into 4 groups with 12 standards:

Categories	**Standards**	**Numbers**
Cross-cutting	General requirements	ESRS 1
Cross-cutting	General disclosures	ESRS 2
Environment	Climate	ESRS E1
Environment	Pollution	ESRS E2
Environment	Water and marine resources	ESRS E2
Environment	Biodiversity and ecosystems	ESRS E3
Environment	Resource use and circular economy	ESRS E4
Social	Own workforce	ESRS S1
Social	Workers in the value chain	ESRS S2
Social	Affected communities	ESRS S3
Social	Consumers and end users	ESRS S4
Governance	Business Conduct	ESRS G1

Table 1: First set of European Sustainability Reporting Standards (European Financial Reporting Advisory Group, 2022)

The General Requirements standard establishes general principles for reporting according to ESRS. Moreover, ESRS 1 outlines the specific areas and minimum criteria that need to be disclosed during reporting to ensure an extensive and thoroughly understanding of a company's impacts, risks, and opportunities related to environmental, social, or governance aspects. This encompasses details such as governance structure, strategic approach or business model, risk management, and the company's objectives. While it does not prescribe specific disclosure requirements, it lays out foundational principles to guide reporting practices.

Moreover, ESRS 2, the General Disclosures standard mandates the disclosure of essential information. Importantly, this standard is compulsory for all companies falling under the scope of the Corporate Sustainability Reporting Directive (CSRD). The comprehensive explanations are mandated concerning governance aspects, which encompass the roles of administrative, management, and supervisory bodies, due diligence practices, and risk management. Additionally, the reporting should delve into strategic elements such as the business model, stakeholders, risks and opportunities within the strategy, materiality assessment processes, and the description of key performance indicators and targets.

All remaining standards are subject to a materiality assessment. This assessment allows companies to report only information deemed material to their business model and activities. Furthermore, companies are encouraged to omit information that is not considered material, ensuring that the disclosed information is focused on what is significant for their sustainability performance and its impact on stakeholders. This approach aligns with best practices in sustainability reporting, emphasising the importance of relevance and materiality in presenting a concise and meaningful overview of a company's sustainability efforts. It allows for a tailored and targeted reporting process, ensuring that disclosed information is genuinely pertinent to both the company and its stakeholders.

However, disclosure requirements subject to materiality are not voluntary. The information in question must be disclosed if it is material, and the undertaking's materiality assessment process is subject to external assurance in accordance with the provisions of the Accounting Directive (European Commission, 2023).

The requirement for a company to provide a detailed explanation of the conclusions of its materiality assessment, especially when it determines that climate change is not a material topic for reporting, is a key aspect of transparency and accountability in sustainability reporting. This provision recognises the far-reaching and systemic impacts of climate change across the economy.

To facilitate the implementation of data collection and reporting processes, particularly for smaller companies, the initial set of ESRS includes relief measures extending over up to three years.

For the first reporting year, all companies, irrespective of size, have the option to refrain from disclosing the anticipated financial impacts associated with risks stemming from environmental issues. Moreover, these companies can provide qualitative disclosure only regarding these financial impacts for an additional two years.

Specific disclosures related to the company's own workforce, such as considerations for people with disabilities, work-related illnesses, and work-life balance, may be omitted in the initial reporting year. Companies with fewer than 750 employees are granted further exemptions, allowing them to omit:

1. The disclosure of Scope 3 greenhouse gas emissions and other disclosures concerning their own workforce in the initial reporting year.
2. Disclosures on biodiversity, workers in the value chain, affected communities, and consumers in the first two reporting years.

These relief measures aim to provide companies, especially smaller ones, with a phased approach to meet the requirements, allowing for a smoother integration of sustainability reporting processes.

The standards mandate companies to identify and report on impacts, risks, and opportunities spanning their entire value chain. This requirement necessitates a comprehensive understanding of how this feature will affect their reporting and data-gathering processes, despite the phase-in reliefs.

The sustainability disclosures of the companies must undergo assurance processes. This necessitates the establishment of the audit and the documentation of processes that serve as proof of the disclosures.

These ESRS are the ones published only in the first set. There are more standards on the way that are being discussed such as sector-specific standards and SME's proportionate standards.

Corporate Sustainability Due Diligence Directive

In 2023, the European Parliament reached an agreement about the Corporate Sustainability Due Diligence Directive (CSDDD). The CSDDD aims to establish due diligence processes for the companies to take responsibility for the negative effects they have on the environment and human rights, along with their worldwide value chains. It is a part of the European Green Deal, which is a set of policies initiated by the European Commission and serves the goal of reducing greenhouse gas emissions of the EU by 55% by 2030, and to net zero by 2050, and assists in limiting global warming to 1.5°C, in line with Paris Agreement.

This directive aims to foster sustainable and reasonable corporate behaviour. According to the European Commission, this directive will improve corporate governance practices to better integrate risk management and mitigation processes of human rights and environmental risks and impacts, including those stemming from value chains, into corporate strategies (European Commission, 2022). The companies will be required to develop a due diligence policy under this directive and incorporate it into their activities and policies, where necessary. Therefore, the companies are tasked with identifying and mitigating the negative impacts they may have on human rights and the environment. Furthermore, it will improve the accountability of the companies for the adverse impacts they have on the environment and human rights, such as child labour or labour exploitation. In addition, it will make it easier for the parties negatively affected by the operations of the companies to have access to the remedies.

Additionally, the firms that fall under the scope of this directive will be required to adopt a transition plan for climate change mitigation and integrate it into their corporate strategy. The plan should mention the company's dedication to limiting global warming to 1.5°C according to the Paris Agreement, reducing greenhouse gas emissions and achieving carbon neutrality.

All the companies within its scope should develop due diligence processes to identify, prevent, reduce, stop, and take responsibility for human rights violations and environmental degradation. The companies under the scope of the CSDDD can be assembled into several groups based on their origin, net worldwide turnover and number of employees. Table 2 below presents the companies in the scope of the CSDDD grouped together according to the minimum characteristics required by the CSDDD.

Groups	**Companies**	**Net Worldwide Turnover in £**	**Number of Employees**
Group 1	EU-based	Over 450 million worldwide	Over 1000
Group 2	Third country	Over 450 million in the EU	-
Group 3	Franchised EU	Over 80 million; 22.5 million in royalties	Over 1000
Group 4	Franchised non-EU	Over 80 million; 22.5 million in royalties	-

Table 2: The companies in the scope of the CSDDD grouped (Council of the European Union, 2024)

Like the previous directives of this type, the CSDDD targets big corporations. Moreover, all the companies under the scope of this directive are expected to work closely with their suppliers and business partners to conduct due diligence processes within their value chain, while also focusing on their own activities. The business partners of the companies should agree with their practices regarding human rights and environment and this agreement should be solidified with a contract.

The small and medium-sized enterprises (SMEs) are not directly in the scope of this directive, however, they are entitled to supportive measures if they are indirectly affected due to their positions within the value chains. These measures consist of potential financial support for SMEs and the development of supportive tools such as websites, guidelines, and hotlines for them.

Furthermore, the directive will be applied in several phases, depending on the net turnover and the number of employees, starting from bigger companies. Therefore, companies will have three to five years to implement this directive.

In the case of non-compliance companies are facing with fines and compliance orders. Moreover, the victims affected by the non-compliance of the companies have the right to take legal action and sue the companies for the damages. The Member States should ensure that victims have access to compensation for the damages that could have been avoided if due diligence processes were in place and complied with. However, the companies are not responsible for any damage that occurred as a result of the negligence of the company's business partners.

The goal of this directive is to make sure that the companies operating in the European Union are holding human rights and the environment in high regard and implementing policies to protect them while promoting sustainable development.

Review of previous studies on ESG and compliance in EU companies

The ESG factors have captured significant attention in the corporate world as all the stakeholders increasingly recognise the importance of sustainable and responsible business practices. In particular, the European Union companies have been at the forefront of ESG compliance and its integration into their business practices due to regulatory initiatives by the European authorities, investor demands, and increased public awareness.

The previous research conducted in compliance with ESG requirements in European Union Member States spans different sectors such as finance, management, and sustainability studies. Numerous studies have investigated the relationship between ESG integration and governance structure, the performance of the board of directors, and risk management. In addition, researchers have looked into regulatory frameworks, their role in the performance of the companies, reporting standards and requirements, and stakeholder engagement in compliance with ESG.

A study conducted by Rossi, Chouaibi J., Chouaibi S., Chouaibi Y., and Jilani (2021) examined the potential effects the CSR practices have on the financial performance of the companies in the context of European ESG firms. According to them, there is a positive effect between CSR practice and the firms' financial performance, and higher financial performance is experienced by firms that are more involved in CSR operations (Rossi, Chouaibi, Chouaibi, Jilani, & Chouaibi, 2021). Augunis and Glavas have found that corporate social responsibility has positive effects on the company's reputation (Aguinis & Glavas, 2012). Another study conducted by Hallikas, Lintukangas, and Kähkönen suggests that sustainable purchasing practices positively influence both the reputational risk management performance and operational risk management performance of a supply chain (Hallikas, Lintukangas, & Kähkönen, 2020). Furthermore, the findings of Maletič M., Maletič D., Dahlgaard, Dahlgaard-Park and Gomišček suggest that organisations should build sustainability aspects into tangible and intangible product/process quality characteristics, through a constant focus on stakeholders' wants and needs, and on the basis of principles of continuous improvement (Maletič, Maletič, Dahlgaard, Dahlgaard-Park, & Gomišček, 2016).

To indicate a piece of better evidence on the effects of ESG compliance, the European Commission's report on Sustainable Finance (2018) highlighted the policy framework and regulatory developments aimed at encouraging the integration of ESG among EU companies. The report outlined the increasing importance and emphasis of disclosure and transparency, enabling investors and stakeholders to evaluate the company's ESG performance (European Parliament, 2018). In addition, the report underlined the EU's commitment to fostering sustainable business practices across industries. In Europe, ESG reporting is primarily aimed at the larger businesses rather than SMEs (Camillieri, 2015) .

Also, according to the research done by Alchuna, Roszkowska-Menkes and Kaminski, the ESG performance was higher for the period after the implementation of the NFRD in comparison to the pre-directive period (Aluchna, Roszkowska-Menkes, & Kaminski, 2023) .

Several studies explored the issue of ESG integration and board diversity in the context of EU companies. One study conducted by Adams and Ferreira examined a large set of EU firms and a positive correlation between ESG performance and higher levels of gender diversity. This correlation shows that companies that prioritise ESG concerns are more likely to adopt progressive governance practices that include diverse representation on their boards (Adams & Ferreira, 2009).

A study conducted by Iamandi, Constantin, Munteanu and Cernat-Gruici has found that European companies support sustainability objectives in descending order of environmental, social and corporate governance goals. This finding suggests that the European businesses take into account the investors' and stakeholders' ESG integration requirements in order to increase corporate competitiveness (Iamandi, Constantin, Munteanu, & Cernat-Gruici, 2019).

Thus, there is a strong background to believe that sustainability practices have positive effects on the performance and reputation of the companies.

III. Methodology

As mentioned in previous paragraphs, in the contemporary world of corporate governance, the integration of environmental, social, and governance (ESG) factors has arisen as a transformational force, reforming the dynamics of how firms operate and are interpreted by stakeholders. This transformation reflects a worldwide shift toward more sustainable and responsible business operations, driven not only by an ethical point of view but also by the recognition of the substantial effect of ESG factors on the financial performance of the firms. Concurrently, the regulatory environment regarding corporate governance has become more and more complex, demanding attentive research of the relationship between ESG factors and compliance measures taken by organisations.

This chapter explains the methodological framework applied in this research to explore the application of ESG consideration and compliance actions in the world of corporate governance in European Union countries. The research aims to explore the transformative era in corporate governance, focusing on how ESG considerations became inherent to the compliance factor, and, in turn, how this integration affects corporate behaviour, performance, and stakeholder consciousness.

The concept of ESG is rooted in sustainability and ethical concerns, therefore it has grown from being a niche consideration into one of the most prominent pillars of corporate strategies. The companies are progressively acknowledging the importance of addressing ESG issues as not just a moral thing to do but also a strategic requisite for long-term value creation, risk management and mitigation, and brand reputation. The regulatory authorities within the European Union have introduced and keep introducing several frameworks, directives, and reporting requirements to formalise ESG incorporation into corporate governance practices.

This research incorporates a case study and analyses several real-life examples to explore how they navigate the process of ESG integration and compliance within the EU context. This method embraces features of law, management, and sustainability and this research aims to straighten out the strategies, challenges, and consequences experienced by these companies as they try to adapt to this new era of corporate governance.

ESG and compliance issues in the corporate governance context are complicated and miscellaneous. They are affected by many kinds of factors, such as national legal frameworks, cultural differences, and industry-specific practices. In addition, ESG and compliance issues often involve qualitative aspects of corporate governance, including ethics and stakeholder engagement. The case study method allows an in-depth dive into these complex issues in a real-life context. Case studies, fundamentally, explore and investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships (Zainal, 2007). Moreover, the case study approach makes it possible to study the topic by examining specific organisations in the EU. This approach provides a comprehensive perception of how ESG and compliance are integrated into corporate governance actions, allowing it to capture nuances that other methods may overlook. Furthermore, case studies are important for real-life applicability since they provide knowledge and lessons learned from actual situations, how the directives of the European Commission or other international frameworks are applied and therefore can be a reliable source of policy recommendations or guidelines and an indicator of best practices for corporate governance in the EU.

This research focuses on three leading energy companies in the European Union, Enel, Iberdrola, and Ørsted. As the EU corporate law, the energy sector is in transition toward better and more sustainable practices, and trying to increase the use of renewable energy sources. Taking their size into consideration, these companies are the leaders not just in the EU but also in the whole world. Therefore, every action they take toward sustainable practices has a huge impact on a bigger part of society and the environment. In addition, they are the targets of the directives of the European Commission.

Enel is based in Italy and is one of the largest electricity companies in the world and operates across Europe, and North and South America. Iberdrola is a Spanish electricity company, with operations in Europe, Asia, Africa, and the Americas. As a Danish company, Ørsted primarily operates in Europe, while also trying to expand its business activities in other regions. These companies are chosen as the subjects of the research since they are leaders in their field, have projects and practices that show they are trying to achieve a transition to sustainability, and regularly share their sustainability reports with their stakeholders and the public and most importantly, they fall under the scope of European Commission directives, such as NFRD, CSRD, CSDDD.

They have assorted portfolios that range from energy generation from traditional sources to energy distribution, as well as renewable energy generation. While companies like Enel and Iberdrola use both fossil fuels and renewable energy sources, Ørsted generates around 90% of its energy from renewable sources, such as wind power. Enel is trying to actively transition to a more sustainable energy generation using wind, solar, and hydroelectric power. While Iberdrola has a strong focus on wind and hydroelectric power. Ørsted is well-known in the industry for its offshore wind farms. Analysing companies with large portfolios gives a chance to examine the energy transition process and their sustainability strategies.

The energy sector

The energy sector is an important and dynamic sector that plays a crucial role in powering the world's economies and has a responsibility to meet the energy needs of societies. It consists of a wide range of activities such as production, distribution, and consumption of various forms of energy, including fossil fuels, renewable energy sources, and nuclear power. The energy industry is constantly evolving in response to technological advancements, environmental worries, and geopolitical factors.

Oil remains one of the most remarkable energy sources worldwide, with a large part of reserves concentrated in regions like the Middle East, Russia, and the United States. The oil sector is in the hands of large multinational organisations and the price fluctuations of oil have high economic and geopolitical effects. Coal, despite its usage declining due to environmental concerns, is still a crucial source of energy in some parts of the world while the efforts to cut down the usage of coal and its environmental impact continue. Especially after the break out of the Ukraine-Russia war, which led to an energy crisis in Europe, the companies were forced to slow down the exit from the usage of coal in energy generation. Natural gas has a reputation for being a cleaner-burning fossil fuel compared to oil and coal.

Renewable energy sources gained recent traction for being more sustainable sources of energy. Solar power has gained a positive reputation for significantly declining costs of photovoltaic panels. Photovoltaic module prices have fallen by around 80% since 2010 (International Renewable Energy Agency, 2017). Many countries have invested in large-scale solar farms and distributed solar installations on rooftops. Wind energy has become widespread as countries continue investing in onshore and offshore wind farms. In addition, wind turbines generate electricity in a clean and sustainable manner. Hydropower remains a crucial source of electricity in many countries, particularly in the ones with abundant water sources, despite the fact that there are concerns about its environmental impacts that have led to more careful planning of the projects. Biomass energy and biofuels are derived from organic materials such as wood, algae, or crop residues. They are renewable alternatives to fossil fuels even though their sustainability depends on responsible sourcing.

Moreover, nuclear energy provides a remarkable portion of the world's electricity, especially in countries like France and Japan. Despite its profile for clean energy, there are concerns about safety, nuclear waste disposal as nuclear plants routinely dump the wastewater in the oceans, and high up-front costs that have slowed its growth.

The energy sector in the EU plays an important role in powering Europe's economy and society, while also dealing with some challenging issues regarding environmental, sustainability- and climate change-related concerns. The EU's energy mix has been expanding over the years while putting a greater prominence and focus on cleaner and renewable energy sources. Especially, after Russia's declaration of war on Ukraine, an energy crisis hit Europe. After the invasion, energy security emerged as an additional strong motivation to accelerate renewable energy deployment. The European Commission's REPowerEU plan, released in May 2022, proposed ending the bloc's reliance on Russian fossil fuels by 2027 (International Energy Agency, 2022). The EU had set progressive targets to decrease greenhouse gas emissions and transition to a more sustainable energy system. According to the European Parliament, one of the five aims of the EU's energy policy is to promote research in low-carbon and clean energy technologies and prioritise research and innovation to drive the energy transition and improve competitiveness (European Parliament, 2023). Furthermore, the EU has taken several measures to reduce the environmental impact of the energy industry. In 2018, the Renewable Energy Directive came into force. It was a part of the Clean Energy for All Europeans package, aimed at maintaining the EU's status as a global leader in renewables and, more broadly, helping it to meet its emissions reduction commitments under the Paris

Agreement (European Parliament, 2018). Under the European Climate Law, the EU is dedicated to mitigating its net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels (European Commission, 2021). The ‘Fit for 55’ package of legislation makes all sectors of the EU’s economy fit to meet this target (European Parliament, 2023). Emission Trading System (ETS) is a system that aims to reduce the sector’s carbon emissions by putting a price on carbon emissions and making the contaminators pay for the GHG emissions they have put out. The Energy Efficiency Directive which was revised in 2023, establishes ‘energy efficiency first’ as a fundamental principle of EU energy policy, giving it legal standing for the first time (European Commission, 2023). In other words, it means that energy efficiency should be taken into consideration by all EU countries in all applicable policies and major investment decisions made in the energy sector.

In conclusion, the energy industry in the world and in the EU is in a state of transition to a more sustainable state with increasing emphasis on renewable energy sources, sustainability, and advancements achieved in technology. Energy companies have an important impact on society, they participate in a variety of activities of society, from job creation to energy security and they also face growing investigation regarding their environmental impact. As the world and the EU seek to address climate change and other adverse impacts the energy sector has on the environment, as well as, reduce its reliance on fossil fuels, the energy industry should continue evolving and meeting the demands of the modern world. EU regulations and initiatives are operating the transition to a greener energy system with the goal of decreasing emissions and protecting the environment for the next generations.

Enel

Enel is an Italian multinational company that operates in the energy industry and it is one of the world’s biggest integrated companies. Since it was established in 1962, Enel has grown into a worldwide leader in the electricity and gas sectors, with a presence in over 30 countries across Europe, the Americas, Asia, and Africa. Enel operates across the whole energy value chain, from power generation and distribution to renewable energy, infrastructure development, and energy services. Enel is headquartered in Rome, Italy, and is listed on the Milan Stock Exchange (Borsa Italiana), as well as on other several international stock exchange markets. Enel's main business operations include generation, distribution, and sale of electricity and gas. The company conducts activities in several business segments. One of them is power generation in which Enel is a major player. It is involved in power generation with a mixture of diverse energy sources such as fossil fuels, renewables, and nuclear power. In addition, Enel manages the distribution of electricity and gas in some countries. Moreover, the company is committed to enlarging its renewable energy capacity and is one of the leading producers of renewable electricity from various sources such as wind, solar, and hydropower. Enel is at the front lines of the transformation to a cleaner and more sustainable energy source as it has set ambitious targets to increase its renewable energy capacity, reduce carbon emissions, and promote energy efficiency. The company puts a strong emphasis on innovation and digitalisation in the energy sector, developing smart grid solutions and energy efficiency sources.

Enel's aim is "Open Power for a brighter future: we empower sustainable progress" which according to the company itself means improving everyone's future, pursuing sustainable progress that leaves no one behind, and leaving a better planet for future generations (Enel, 2023). The company's commitment is to develop a just and inclusive transition that creates value wherever it operates (Enel, 2023). The company has set its vision on focusing on the future and basing its progress on sustainability as a way of responding to global challenges and transforming into a decarbonised economy. This vision helps the company to apply the United Nation's Sustainable Development Goals (SDGs) in their business model. Enel is involved in most of these SDGs however, especially focuses on SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), and SDG 9 (Industry, Innovation, and Infrastructure).

Enel initiated a strategic turn towards a double materiality framework. Double materiality is a responsibility to report not only financial metrics but also the sustainability information that may affect the people and the environment. The former is known as financial materiality and the latter as impact materiality. Therefore, along with the financial information necessary for the shareholders, the company releases the sustainability information in order to disclose the effects the company has on society and the environment, as well as, the actions taken against the negative effects the company has on these.

According to Enel, its adopted corporate governance model is based on the aim of creating value for all stakeholders in the long term while promoting Enel's commitment to its environmental and social responsibilities (Enel, 2023).

The Board of Directors holds a central role in Enel's corporate governance structure. The Board of Directors is entrusted with the authority over strategic and organisational policies within the company with the primary objective of ensuring sustainable success. Most importantly, the Board is responsible for the evaluation and approval of the company's strategy making sure the sustainability issues are integrated into the strategy as they play a vital role in leading the transition to greener energy.

The Corporate Governance and Sustainability Committee within the company plays a crucial role by providing assistance to the Board of Directors in assessing and making decisions concerning corporate governance and sustainability matters within the company. This includes several issues, from issues related to climate change to the dynamics of the company's interactions with all stakeholders. Regarding sustainability matters, the committee is responsible for examining various aspects, including developing a sustainability plan and its guidelines, conducting double materiality analyses in order to identify issues that take priority for the stakeholders, developing a sustainability policy and overseeing its implementation, and preparing the sustainability report.

Enel also has a Control and Risk Committee that plays a crucial role in supporting the Board of Directors in their evaluations and decisions related to various risks the company may face, which includes sustainability risks. Additionally, the committee reviews relevant matters related to sustainability matters as addressed in the sustainability report. The committee provides a preliminary opinion on these issues to the Board of Directors, which is responsible for approving these documents.

Enel has developed an environmental policy in order to protect the environment and handle the possible issues that may arise regarding the environment during the company's activities. This policy is published with the company's sustainability report, which is approved by the Board of Directors. Enel established the company's environmental policy back in 1996, which is built on four foundational principles: protecting the environment, improving sustainability, creating shared value, legal compliance, and commitments. With this environmental policy, Enel aims to achieve some strategic goals such as the adoption of ISO 14001 Environmental Management Systems (EMS) throughout the organisation. By adhering to this standard, organisations can ensure they are taking proactive measures to minimise their environmental footprint, comply with relevant legal requirements, and achieve their environmental objectives (International Organisation for Standardisation, 2021). This helps the company to focus on the reduction of environmental impacts through innovation, improve renewable energy, focus on decarbonisation, enhance communication with all stakeholders, train employees and increase awareness among employees, and overall better sustainable practices.

Enel has developed a sustainability strategy that focuses on achieving zero emissions by 2040. In this sustainability strategy, the sources of renewables are at the core of generating energy. Therefore it was necessary to develop a secure grid infrastructure to support a sustainable business model and sustainability strategy, simultaneously focusing on the needs of stakeholders. Within this business model, Enel prioritises innovation, digital transformation, and circular economy which are important in all business activities. This approach to sustainability is characterised by a dedication to the protection of the environment and upholding human rights, boosted by the sound governance framework.

The Sustainability Plan 2023-2025 strengthens the company's position on dedication to decarbonisation, taking all the emissions put out by the company into consideration by reaffirming the "No Net Loss" strategy of the company regarding the preservation of biodiversity starting from 2030. The objective is set to focus on enhancing the overall well-being of Enel employees, recognising the full potential company has for innovation. Furthermore, Enel's sustainability is centred around the ambition of reaching carbon neutrality by the year 2040 which also aligns with the ambition of keeping global warming below 1.5°C as it was mentioned in the Paris Agreement.

As a part of the sustainability strategy, Enel's primary aim is to reduce its impact on climate change. So as a part of this strategy, Enel identifies the key factors that contribute to climate change, develops initiatives, and allocates financial resources to successfully execute the instructions for decarbonisation and clean electrification. With special emphasis being placed on the development of climate change-focused policies, Enel aims to reduce the adverse effects of its business operations and make sure that a secure and sustainable energy service is delivered.

Electricity generation is one of the main business activities of Enel, and fossil fuels play a crucial part in it, as well as, they put out the most greenhouse gases. To transition to cleaner energy generation methods, the source material needs to be changed. However, this change is not easy and requires a few factors to be taken into consideration, such as geopolitical, and regulatory frameworks. Moreover, fluctuations in commodity prices, technological advancements, and macroeconomic and geopolitical situations are important factors that should be taken into account while developing plans for electricity generation and uninterrupted provision of customers with electricity. However, it is also crucial not to forget about sustainability and environmental matters while doing these and comply with the relevant policies in the region the company operates. For these reasons, the company creates scenarios to tackle these issues while taking technological advancements and new trends into consideration.

Moreover, the company's long-term decarbonisation strategy is based on achieving zero emission output by 2040. The decarbonisation strategy is built upon several specific pillars. First and foremost, decarbonisation of the generation mix involves a gradual shift toward renewable energy sources while discontinuing the production of electricity from thermal power sources. In addition, by 2040, the company aims to slowly promote new products and services, simultaneously phasing out the sale of gas to end consumers. Also, the company wants to exit coal-fired energy generation by 2027. The company plans to do this by applying several actions such as promoting electrification solutions powered by renewable sources, achieving a complete phase-out of fossil fuels, accelerating the growth and utilisation of renewable energy sources, and implementing digitalisation and expansion initiatives for distribution networks (Enel, 2023). This modernisation helps adapt to the ongoing energy transition and ensures the delivery of high-quality services to customers.

In order to reduce the dependence on fossil fuels and raw materials, Enel is aiming for clean electrification. The International Energy Agency defines electrification as "replacing technologies or processes that use fossil fuels, like internal combustion engines and gas boilers, with electrically-powered equivalents, such as electric vehicles or heat pumps" (International Energy Agency, 2023). Enel Grids is the Group's global business line dedicated to the management of the electricity distribution service worldwide (Enel, 2023). However, the grid does not serve just as an infrastructure, it acts as an essential link that connects various actors in the energy market. The reliability of the electricity supply depends on the grid that facilitates the transition to electrification through innovation and digitalisation. To achieve the transition to electrification, Enel has initiated a plan called Grid Futurability®, which is an approach focused on customers. The objective is to provide a more sustainable grid that can address stakeholder needs by using innovative technological advancements.

The recently developed model, combining Open Innovation with sustainability, revolves around utilising the collective wisdom of various stakeholders, fostering their ideas, and reshaping them into innovative corporate revenue models. This approach demands the company to create connections with various stakeholders, including start-ups, small and medium-sized enterprises (SMEs), research centres, and universities. This collaboration is assisted through the Open Innovability® platform and is geared towards addressing new challenges, aligning with the objectives of the company's strategic plan and the Sustainable Development Goals (SDGs) outlined in the United Nations 2030 Agenda. A way to achieve this challenging goal is to engage in collaborative efforts involving a wide range of stakeholders, including suppliers, competitors, and industrial grids. Therefore, Enel has launched Open Innovability® as a crowdsourcing platform. The vision here is to drive the energy transition by collaborating with start-ups, entrepreneurs, companies, and anyone who aspires to create solutions that have the potential to reshape the world (Enel, 2023). Enel is looking for innovative projects and ideas with the help of Open Innovability® methodology and is trying to bring these projects and ideas to life.

In 2022, Enel became one of the first in the whole world to voluntarily embrace the ISO 56002 standard. ISO 56002 standard is an international standard for innovation management that assists firms in managing their innovation activities more efficiently and responsibly. With the acceptance of this standard, the company treats innovation as a part of company culture and as a strategic asset. Innovation is included in the business strategy of the company.

As a part of digital transformation, Enel's goal is to utilise digital solutions while designing these digital solutions with sustainability in mind. For instance, key actions Enel took in 2022 include decarbonisation and mitigation of emissions associated with digital solutions, or advancing social inclusion by creating assistive technologies and solutions that enhance accessibility and create shared value by addressing local requirements. Furthermore, in 2022 Enel developed and published its first Digital Sustainability Policy which outlines the company's objective to incorporate sustainability into its activities by utilising digital solutions.

Enel uses the circular economy as a strategic tool to boost the decarbonisation strategy. The circular economy is a model of production and consumption that involves sharing, leasing, reusing, repairing, refurbishing, and recycling existing materials and products for as long as possible (European Parliament, 2023). Enel's circular economy model is designed to reduce the company's reliance on raw materials while promoting environmental, social, and economic sustainability. On the environmental level, by the circular economy, Enel diminishes its usage of new resources and reduces the waste generated at the end of the product lifecycle which in return contributes to the protection of the environment. The company's circular model is constructed around three main levers. The first one is circular design and it begins with careful selection of input materials and incorporates sustainability principles aimed at extending the lifespan of assets. The second one is circular use which includes the practices that extend the lifecycle of the assets. The last one is value recovery and this phase includes remanufacturing recycling and reuse of recovered materials as a new circular input (Enel, 2023).

The preservation of biodiversity is an important strategic tool for Enel. To preserve biodiversity Enel is committed to achieving “No Net Loss” of biodiversity and “No Net Deforestation” strategies. With these Enel aims to counterbalance the adverse effects on biodiversity through various measures that can possibly restore and enhance the state of the biodiversity to the previous levels. The measures for the preservation of biodiversity include waste management, reducing water pollution, soil protection, and energy efficiency. Moreover, Enel has developed a biodiversity policy to contribute to the preservation of it. Preservation of biodiversity is outlined in the company’s environmental policy however, Enel developed a stand-alone policy for biodiversity in 2015, which was updated in 2023. With this policy, Enel aims to stop and reverse biodiversity loss by 2030, while actively contributing to the EU Action Plan: 'Towards Zero Pollution for Air, Water and Soil', developed by the European Commission. In 2021 European Commission adopted this plan as a part of the European Green Deal. According to the European Commission, the zero pollution vision for 2050 is for air, water, and soil pollution to be reduced to levels no longer considered harmful to health and natural ecosystems, that respect the boundaries with which our planet can cope, thereby creating a toxic-free environment (European Commission, 2021). Furthermore, Enel’s biodiversity policy includes the application of a mitigation hierarchy policy, which includes reducing impacts on biodiversity, implementation of rehabilitation and restoration measures, and compensation for residual impacts (Enel, 2023).

Moreover, Enel has adopted guidelines to regulate its water usage. There are three main guidelines outlined by Enel that demonstrate a comprehensive and responsible approach to the use and management of water resources. These guidelines align with the principles of sustainable development and reflect a commitment to minimising environmental impact. The principles of water management include efficient use of water resources, internal reuse of water, and improvement of wastewater treatment.

As it was mentioned before, double materiality focuses on both financial criteria and sustainability information. Sustainability affects all the actors that have a stake in the company. These actors include everyone from company employees to society as a whole, and these all together constitute the social dimension of ESG.

The connection between climate change and the social dimension of ESG is undeniably strong. Enel is taking an active role in fighting climate change while also placing people at the centre of these efforts. In other words, the strategy to fight climate change does not just include reducing carbon gas emissions but also social inclusion. Simultaneously, these strategies support decent work, in line with the pillars outlined by the International Labour Organisation, which include full productive employment, ensuring workers' rights, expanding social protection, and fostering social dialogue. Enel is committed to embracing these principles in order to fully show off the meaning of the word “transition”. This transition happens through principles such as that no one is left behind, even in the short term, as the company works towards its climate goals, progressively reducing emissions in alignment with the Paris Agreement (Enel, 2023). Moreover, Enel acknowledges the significance of considering the social impacts stemming from its climate strategy and incorporates them into its decision-making processes.

Enel prioritises the provision of the environment and natural resources as they are pivotal considerations in the company's operational planning and development. These priorities align with Enel's commitment to decarbonisation. Recognising the interplay between environmental challenges, climate change, and their social consequences, Enel understands that addressing the effects of increasing environmental degradation and climate change necessitates an approach that includes their social impacts. The company believes that the transition toward achieving net-zero carbon emissions should be both equitable and inclusive.

Enel has adopted its stakeholder engagement policy in order to keep an active communication with its stakeholders and identify their needs and expectations as early as possible. This proactive approach enables the creation of a comprehensive plan detailing the potential consequences activities may have on various stakeholders. While identifying stakeholders of the company, it also ensures that the identified stakeholders represent all groups affected by the development of the company's business activities. Moreover, Enel analyses the nature of the relationship that can be established between the company and the identified stakeholders to mitigate potential conflicts of interest. Additionally, measures are taken to facilitate and support the engagement of local communities in project monitoring. This involves providing local training initiatives, sharing transparent information on project phases, and outlining the methodology used to define target areas. By empowering local communities with knowledge and understanding, they can actively participate in monitoring and provide valuable feedback.

In 2013 Enel adopted a Human Rights Policy. The content of Enel's Human Rights Policy is rooted in internationally recognised human rights, as outlined in the International Bill of Human Rights and the International Labor Organization (Enel, 2023). These principles and rights are applicable to the company's business practices and serve as a reference point for ensuring that the company's operations align with recognised global human rights standards.

Human Rights Policy has established several principles that serve to address the issues which include employment practices, and building relations with the communities, and society as a whole. These principles include refusing forced labour, slavery, and human trafficking, promoting diversity and inclusion, fair and equitable treatment, and environmental protection. In order to develop a human rights policy that aligns with international standards, Enel referred to "UN Global Compact Guide for Business: how to develop a Human Rights Policy." And these principles have been selected based on their relevance to Enel's business activities which were also consulted with all the relevant stakeholders of the company. Furthermore, Enel holds trainings to spread awareness about environmental protection, human rights, occupational health and safety, diversity and inclusion, anti-corruption, and building positive relations with communities.

Occupational health and safety of employees are the issues Enel is trying to address while also aligning them with the UN's SDG of decent work and economic growth. The protection of its employees' safety and their mental and physical well-being is Enel's responsibility. Under Enel's Stop Work Policy, all Enel employees and employees from other contractor companies are required to stop any work that can put their own and other people's safety in jeopardy.

In line with the Policy on Human Rights, Code of Ethics, Statement of Commitment, and Stop Work Policy, Enel has defined a specific Health & Safety Policy that requires every Group Business Line to have its own Health & Safety Management System in compliance with international standard ISO 45001 (Enel, 2023). The Health & Safety Management System is founded on several key elements, such as identifying hazards, planning and implementing preventative and protective measures, and corrective actions.

During the tender phase, Enel prepares a specific document known as "HSE Terms," which is attached to all contracts and is required to be signed by contractors when the work is awarded (Enel, 2023). This document outlines the obligations concerning social and environmental aspects that contractors must stick to, in addition, contractors are further obligated to extend these requirements to their subcontractors.

Enel is always actively trying to attract new talents to the company that can convey organisational values. Talent Engagement Program is developed as a selection process that targets talents from well-known universities with the goal of providing development in the various areas of the company. Furthermore, Enel encourages its employees to actively participate in the cultural and systemic transition of the company, while also educating them about the decarbonisation and digitalisation strategies of the company.

In 2019, Enel implemented the Workplace Harassment Policy, which introduced critical themes of respect, integrity, and individual dignity in the workplace (Enel, 2023). This policy aimed to prevent all forms of harassment and the principles outlined in this policy were the foundation of the Statement against Harassment in the workplace.

At the European level, the Agreement on the Enel European Works Council, initially established in 2016, stands out as one of the most progressive agreements in the EU electricity sector. This is an agreement reached by Enel and trade unions, places particular emphasis on the issues regarding employees' health and safety, training, and diversity within the organisation.

As it was mentioned before, in countries where Enel operates, there is a transition toward digitalisation. The company is dedicated to managing this transition by engaging in robust dialogue with trade unions. Even though this transition is believed to benefit all the involved parties, however, there is a need to consider the negative effects digitalisation may have on people. By connecting with trade unions, Enel is aligning this transition with its mission of ensuring that no one is left behind in the process of transitioning to a more sustainable future with a more modern energy landscape.

Effective management of relations with the communities is an essential factor that enables the success of sustainability initiatives. It is essential to predict and address all the risks associated with sustainability during the planning phase of the projects. By doing this company is putting sustainability at the core of its strategies.

Regarding its customers, Enel’s goal is to continually maximise value for them through various means such as the activation of new services and a strong focus on customer needs through digitalisation, offering incentives for reducing consumption compared to previous periods. As a result of its latest materiality analysis, Enel has identified customer centricity as one of the most important topics according to the priorities set by the company itself. However, the company has identified that this process could only be achieved in a longer period of time.

To build a strong relationship with communities there is a need for a strong dialogue. Enel bases this dialogue on well-defined stages of stakeholder engagement. The main objectives for this dialogue are to incorporate responsible company conduct, communicate, and monitor the implementation of improvement plans.

Enel's corporate governance system complies with the principles contained in the Italian Corporate Governance Code, which was published on January 31, 2020 (Enel, 2023). This code is based on international best practices and serves as a framework for Enel to follow. The corporate governance system employed by Enel is primarily focused on achieving sustainable success. It aims to create long-term value for shareholders while acknowledging the environmental and social effects of the Enel's operations, while also considering all the relevant stakeholders.

Enel places special importance on the composition of its Board of Directors, especially since there is a strong emphasis on diversity criteria, including gender diversity, when shaping the Board of Directors. As well as there is a commitment to ensuring that Board members possess the necessary expertise and professionalism. In January 2018, the Board of Directors, following a recommendation from the Corporate Governance and Sustainability Committee and the Nomination and Compensation Committee, and in compliance with the requirements of the Single Financial Act, endorsed a diversity policy (Enel, 2023). This policy indicates the ideal characteristics for the composition of the Board, with the aim to ensure that it effectively fulfils its responsibilities. The policy seeks to have a diverse group of qualified members who can participate in discussions and decision-making from a range of perspectives, therefore making it possible for the company to make more well-rounded and well-informed choices.

Enel has implemented an ESG risk catalogue that serves as a central reference point for the entire company and for all corporate units engaged in ESG risk management and monitoring activities (Enel, 2023). The utilisation of shared terminology simplifies the process of identifying and addressing the ESG risks across the company. The ESG risk catalogue categorises types of risk into several categories such as strategic, financial, operational, non-compliance, digitalisation, governance, and culture risks.

Enel has been a participant in the EU voluntary transparency register since its first initiation in 2008. The transparency register is a database that lists organisations that try to influence the law-making and policy implementation process of the EU institutions. The register makes visible what interests are being pursued, by whom and with what budgets. In this way, the register allows for public scrutiny, giving citizens and other interest groups the possibility to track the activities of lobbyists (European Commission, 2008). Furthermore, Enel operates in accordance with the provisions of its Code of Ethics, which states that the company does not provide financial support to political parties, their representatives, or candidates in Italy or any other country and also refrains from participating in and sponsoring events which are held with the sole purpose of political propaganda.

Enel provides a confidential and secure channel for employees and other stakeholders to report concerns or misconduct. This could include an anonymous hotline, an online reporting system, or a selected person within the company. A crucial aspect of any whistleblowing policy is the assurance that individuals who come forward with information will not face retaliation. Enel states its commitment to protecting whistleblowers from any negative consequences. Additionally, the company has established procedures for investigating reported concerns. This involves a fair and impartial inquiry to determine the validity of the reported issues and take appropriate actions if necessary. Enel also conducts training programs and awareness campaigns to educate employees about the whistleblowing policy, the importance of reporting concerns, and the protections in place for whistleblowers. Also, whistleblowing systems play a huge role in preventing bribery and corruption.

Enel has a comprehensive Code of Conduct and ethics policies that explicitly prohibit bribery and corruption. These documents outline the company's commitment to ethical business practices. Moreover, these documents include Enel's regular training programs to educate employees on anti-bribery and anti-corruption policies. This helps raise awareness about the risks associated with bribery and corruption and ensures that employees understand their role in preventing such activities. Before entering into business relationships, especially with third parties such as suppliers, contractors, and business partners, Enel performs due diligence to assess the risk of bribery and corruption. This due diligence process includes background checks and assessments of the potential partner's integrity and ethical practices. Enel has also established mechanisms for monitoring and auditing the activities of third parties to ensure compliance with anti-bribery and anti-corruption standards to hold regular assessments and prepare reviews of their business practices. The company implements internal controls to detect and prevent irregularities related to bribery and corruption, such as regular audits, financial reviews, and other measures to identify and address any suspicious activities.

Iberdrola

Iberdrola is a Spanish multinational electric utility company that is headquartered in Bilbao, Spain. Iberdrola is one of the largest electricity companies in the world and a leading player in the renewable energy sector.

Iberdrola was founded in 1992 through the merger of two Spanish utility companies, Hidroeléctrica Española and Iberduero. It has a long history dating back to the late 19th century when these predecessor companies were established. Iberdrola is primarily engaged in the generation, transmission, distribution, and sale of electricity.

Iberdrola's mission is "to continue building together each day a healthier, more accessible energy model, based on electricity" (Iberdrola, 2023). This is aligned with the United Nations 2030 Agenda for Sustainable Development and Sustainable Development Goals (SDGs). Furthermore, the mission reflects the company's aim to tackle significant economic, social, and environmental issues.

The company wants to create an energy-based business model that relies on cleaner energy. In other words, Iberdrola wants to abandon the use of fossil fuels and create a new model that relies less on fossil fuels and emphasises the use of renewable energy sources. Since renewable energy sources are better for public health and safety, the company desires to make them accessible to everyone in order to promote equality, inclusivity, and fairness. Therefore, there should be a commitment to collaborate with all stakeholders, including society as a whole to make the new business model more attainable for all the stakeholders. In line with this mission, Iberdrola developed three core values: sustainable energy to serve as a source of inspiration for generating economic, social, and environmental value while keeping an eye on the future, integrating force to operate with responsibility that benefits all the stakeholders, driving force to make minor or major differences to improve people's lives (Iberdrola, 2023).

Iberdrola believes that achieving a carbon-neutral economy by 2040 is both attainable from the technological point of view and necessary for society and the environment. Therefore, Iberdrola's business model focuses on increasing investments in electrification, and on renewable energy to achieve industrial development. This business model is designed to enhance value creation for everyone involved by prioritising stakeholder engagement and their satisfaction with ESG factors in the company's strategy.

Therefore, Iberdrola has adopted its stakeholder engagement policy. The purpose of Iberdrola's stakeholder engagement policy is to establish a comprehensive framework governing the relationships between the company and its respective stakeholders in the course of their activities and operations. The key objectives are as follows:

1. Encourage active involvement of stakeholders, guaranteeing the creation of common sustainable value that benefits all involved parties.
2. Continuously respond to the interests of stakeholders with whom the company interacts.
3. Promote diversity among stakeholders and encourage them to recognise the company's efforts regarding this matter.

With the help of the stakeholder engagement policy, the company strives for consensus with stakeholders, especially with local communities and indigenous populations, and considers their viewpoints and expectations, working towards mutually agreeable outcomes.

Moreover, the company seeks continuous improvement by regularly reviewing stakeholder engagement mechanisms and ensuring that these mechanisms evolve and efficiently respond to the dynamic needs of each moment.

The main product Iberdrola offers to its customers is electricity, and they provide a wide range of technologies, services, and solutions in other areas such as generating electricity from renewable sources, especially from wind, transmitting and distributing electricity and gas, supplying electricity and gas to customers and etc.

Iberdrola has established a Governance and Sustainability System that is structured on environmental, social, and governance values. The Governance and Sustainability System is the company's internal system of rules and is constructed on five books (Iberdrola, 2023). The books are By-Laws which is the internal system of regulations that is the spine of the Governance and Sustainability System; Environment and Climate Action which focuses on the preservation of the environment and biodiversity and measures taken to control climate change; Social Commitment which addresses social issues such as human rights, human capital, equality, and inclusivity; Corporate Governance is a book of governance practices, guidelines and standards for the management of the company; Purpose is the company's philosophy and its motive to exist.

The Board of Directors has authority over matters related to strategic planning, governance model, and other responsibilities such as organisation and coordination of the company's strategic initiatives. There are several consultative committees under the Board of Directors. Even though they do not possess any executive powers, they serve as advisory committees.

The Sustainable Development Committee is one of them and it is responsible for updating the Governance and Sustainability System, preparing statements of non-financial information, overseeing the policies and procedures related to sustainability, and ensuring that the company is complying with the regulatory requirements. The Appointments Committee plays a crucial role in advising the Board of Directors on matters related to the composition and structure of the board. This advisory committee covers aspects such as the size of the board, the balance among directors from different backgrounds, and the specific personal and professional qualifications expected from candidates and regularly reviews the structure of the board. Furthermore, independent directors are appointed based on the Appointments Committee's proposal.

Iberdrola discloses information related to its business activities with the double materiality principle. Information related to financial and non-financial matters is disclosed by the company. The non-financial related matters include environmental, social, and governance-related issues.

The company's environmental policies serve as a proactive answer to environmental challenges such as climate change and biodiversity loss. In order to fight the environmental issues the company has adopted several policies, including sustainable management policy, environmental policy, climate action policy, and biodiversity policy. The Sustainable Management Policy outlines sustainability principles that the company is dedicated to accomplishing, such as developing a business model that is rooted in sustainable activities, aiming to reduce the environmental impact of all business activities, creating a long-term sustainable value for all stakeholders, promoting the company's social commitment in regards to human rights and promoting the company's corporate social responsibility.

The Environmental Policy was created for the purpose of incorporating the preservation of the environment and sustainable usage of natural resources. It is more specific in topics regarding the environment and natural resources which were explored more generally in the Sustainable Management Policy. According to Environmental Policy, the company must develop an environmentally friendly business model that complies with the legal requirements, promotes innovation through research and development, and uses natural capital more responsibly.

Iberdrola's Climate Action Plan lays out instructions for the goal of reaching net-zero carbon emissions by 2040. The Climate Action Plan outlines the strategies, initiatives, and other indicators that play a crucial role in driving the overall decarbonisation of the economy. In 2022, the company updated its strategic goals for 2025 and 2030. According to the investment plan, a special emphasis is placed on renewable energy, smart grids, and efficient energy sources. There are some primary areas identified in the company's Climate Action Plan, including investment of 100% into renewable energy, investment of 100% into smart and robust grid operation, designing and offering customers green solutions, and promotion of partnerships in green technologies and decarbonisation (Iberdrola, 2023). The objective of this policy is to provide a framework for applying the company's strategy and business model while staying true to its commitment to combat climate change. On a global scale, the company takes action to maintain the average temperature rise below 2°C compared to pre-industrial levels. Furthermore, there are ongoing initiatives to push this temperature increase further down, striving to maintain it as close as possible to 1.5°C. This goal is aligned with the Paris Agreement and the United Nations 2030 Agenda for Sustainable Development. Additionally, Iberdrola's guiding principles include the adoption of recommendations from the Task Force on Climate-related Financial Disclosure (TCFD) and similar leading organisations, which help in identifying and reporting long-term climate-related risks. The Board of Directors supervises and approves the Climate Action Plan.

In 2022, Iberdrola participated in the United Nations Climate Change Conference, more commonly known as COP27. Iberdrola signed a joint statement 1.5°C Business Sign-on Statement at COP27, promoted by the We Mean Business Coalition, which refers to the commitment to limit the global temperature growth to 1.5°C. Furthermore, all the involved parties pledged to cut global emissions in half by 2030 and net zero by 2050.

For the short term, for the years 2023-2025, in the company's strategic plan Iberdrola has identified growth opportunities for smart grids and renewable energy, and incorporating ESG factors into the corporate strategy. Even though, there are some concerns about the delays in advancing toward a low-carbon economy because of the Ukraine-Russia war, such as interventions in electricity markets and increases in rates. 2025-2030 is the medium term, aiming to identify the opportunities and risks that may arise within the energy sector and develop scenarios to observe the issues related to business operations.

Iberdrola's strategic plan for 2023-2025 places a strong emphasis on integrating environmental, social, and governance (ESG) issues into its strategy and day-to-day operations. This integration serves as a vital point of reference for long-term planning. These ESG considerations are rooted in three fundamental factors: the company's corporate purpose, which guides its overall positioning; the expectations of stakeholders; and the requirements of the capital markets (Iberdrola, 2023). In environmental aspects, the company's objective is to advance towards an energy system that with both the natural environment and human well-being. This commitment involves addressing the three main environmental challenges: fighting climate change, protecting biodiversity, and promoting resource circularity.

Iberdrola places its primary focus on the Sustainable Development Goals (SDGs), especially on Goal 7 (Affordable and Clean Energy) and Goal 13 (Climate Action). This commitment is an integral part of the company's governance model and its approach to sustainable management.

Iberdrola considers the circular economy as a vital component in achieving sustainable development, and it sees it as a significant driver for climate action and the energy transition. The company's circular economy model is built on the reduction of carbon emissions, use of renewable resources, improved efficiency on various aspects of operations, and resource optimisation and maximisation of waste utilisation (Iberdrola, 2023). Iberdrola's Circular Economy Plan establishes the guiding principles and objectives that show the way for the company to diminish the utilisation of raw materials. It encourages an increased adoption of renewable and recycled materials, enhancing the efficiency of processes, products, and services. The plan also commits to maximising the value derived from waste, with the ultimate goal of transitioning towards a future where waste is fully utilised and none remains unused. This plan serves as a roadmap for the company's efforts to embrace sustainable practices and promote a circular economy.

Iberdrola is committed to integrating biodiversity into its strategy planning. The Biodiversity Policy aims to create a foundational framework for embedding biodiversity protection and promotion into the company's strategy. It sets out guiding principles for developing a business model that is sustainable and harmonious with nature, ensuring that its operations contribute to the preservation and growth of the natural heritage. Iberdrola has set a goal of achieving a positive net impact on biodiversity by 2030, not generating net deforestation by 2025. To protect the biodiversity Iberdrola makes sure conservation hierarchy is applied and protected. Conservation hierarchy refers to the four steps: refrain, reduce, restore, and renew. Furthermore, the Biodiversity Policy identifies activities and operations that could have potential impacts at various stages in the life of facilities. The goal is to take proactive measures to avoid, minimise, and effectively address these potential impacts. Moreover, the

Biodiversity Policy outlines the key actions and measures taken to protect biodiversity, including identifying and assessments of impacts, engaging stakeholders by considering their desires and expectations, and raising awareness by reporting on the necessity of biodiversity. Moreover, Iberdrola takes safety measures to prevent the mass pollution. The company implements precautionary programmes against pollution.

Iberdrola recognises water as a fundamental and irreplaceable natural resource in its activities and reflects a commitment to responsible and sustainable practices. The company's awareness of the potential risks associated with water shortages has driven it to establish a goal of ensuring the increasingly responsible use of this vital resource. There are some key actions that Iberdrola has taken to promote more sustainable use of water: continuous improvement of processes, implementation, and control of water flows, and environmental programmes in compliance with authorities.

For the social dimension, Iberdrola places special importance on the continuous development of relationships with stakeholders and human rights issues. To show commitment to ethical and responsible business practices, all the partners on the supply chain should be acting with the same dedication and competence.

Iberdrola’s Policy on Human Rights was first approved by the Board of Directors in 2015 and last revised in 2022. This policy serves as the basis for the company’s approach to make sure that human rights are respected within the business operations and in the whole value chain. Furthermore, it establishes a set of mandatory principles of conduct for all the employees in the company and emphasises the need for governance procedures and regulations to validate human rights. Through this policy, Iberdrola has made several commitments aligned with international human rights standards, including respect for human rights, rejection of child and forced labour, and promotion of a culture that respects human rights. The company has established a comprehensive human rights due diligence framework with the objective of integrating all human rights-related issues into a single system. This framework is built on the foundation of the Governance and Sustainability System. Iberdrola views the Human Rights Due Diligence System as an ongoing process designed to identify and address the risks and impacts associated with all stages of its operations. The implementation of the due diligence system entails several critical steps such as identifying both actual and potential impacts on human rights, integrating the findings of this analysis into the company's operations, monitoring the company's responses to address these impacts, and communicating how adverse consequences are addressed and managed.

Iberdrola’s Stakeholder Engagement Policy was approved by the Board of Directors in 2015. Iberdrola defines stakeholders as groups and entities whose decisions and opinions influence the company while also being impacted by its activities. Therefore this policy plays an important role in engaging with stakeholders, listening to their social interests, and developing a responsible and sustainable business model.

Iberdrola's Stakeholder Engagement Policy underscores the crucial role of engaging with stakeholders in achieving social interests and developing a responsible and sustainable business model. Stakeholders are defined as groups and entities whose decisions and opinions influence Iberdrola while simultaneously being impacted by the company's activities. Iberdrola has identified and grouped its stakeholders into 8 categories: workforce, shareholders and financial community, regulatory entities, customers, suppliers, media, society in general, and environment (Iberdrola, 2023).

Iberdrola has developed the People Management Policy to outline and establish a human capital management model for the company. This policy manages the process of attracting, developing, and retaining talent effectively and has a broader objective of promoting the personal and professional growth of all individuals within the company. Furthermore, it also ensures that the employees have secure employment in a diverse and inclusive environment. For the recruitment process, Iberdrola has specific policies, including the Recruitment and Selection Policy and the Equality, Diversity, and Inclusion Policy, which have been approved by the Board of Directors.

Iberdrola is dedicated to promoting diversity and inclusion within its organization, striving to reflect the diversity of the communities it serves. The company makes sure that each individual contributes positively to the company, and this commitment to diversity and inclusion is communicated to all stakeholders. To further advance the inclusivity and diversity efforts, the company needs to establish a robust governance structure that specifies and promotes diversity and inclusion strategies. Some specific policies were accepted to guide the company through these objectives. Firstly, the Equality, Diversity, and Inclusion Policy is aimed at creating a positive environment that encourages and promotes equality and diversity within the company. Secondly, the Boards of Directors Diversity and Member Selection Policy ensures that proposals for the appointment of company directors prioritise a diverse composition in terms of skills, knowledge, age, gender and other unique qualities belonging to individuals. Lastly, the Global Diversity and Inclusion Committee is responsible for bringing forward, updating, and monitoring Iberdrola's diversity and inclusion strategy in alignment with the company's overall strategy.

The Equal Opportunity and Reconciliation Policy helps the company foster and promote equality, diversity, and inclusion. Moreover, this policy includes provisions for equal pay for men and women who perform equal work and includes a wage review process with uniform criteria applied to both genders. In addition, the company's collective bargaining agreements are structured to ensure equality in starting wages for men and women.

The Occupational Safety and Health Risk Policy has been developed and is being applied by the company in order to guarantee the safety and well-being of the company's employees. This policy has been approved by the company's Board of Directors. The fundamental objectives of this policy are achieving a gradual reduction in accident rates, continuing to enhance the safety environment in the workplace, and promoting a culture of safety.

Iberdrola is embracing disruptive technologies that are progressively more efficient, sustainable, and environmentally friendly. These technologies enable the optimisation of facilities and processes. This includes areas such as green hydrogen, innovative renewable energy solutions, sustainable mobility, energy storage, smart grids, the electrification of heating systems, and the recycling of clean technology components (Iberdrola, 2023). These technological advancements are expected to drive transformation with a strong focus on sustainability, providing green and affordable energy while creating new jobs. Furthermore, Iberdrola also places a strong emphasis on fostering innovation through collaboration with start-ups, entrepreneurs, and suppliers. The goal is to develop partnerships and establish new, disruptive business models while facilitating the exchange of knowledge and serving as an agitator among its partners.

Iberdrola holds the responsibility to encourage its suppliers to enhance their environmental, ethical, and social performance. The Purchasing and Services Division within Iberdrola is responsible for building relationships with suppliers, defining the strategy and protocols for controlling and monitoring the relationships with suppliers. This mission is carried out in alignment with the strategic objectives set forth by the Board of Directors, while consistently adhering to the company's Governance and Sustainability System. In 2022, the Purchasing Division at Iberdrola implemented and standardised the use of the Global Supplier Sustainability Evaluation Model. This model is designed to align with the international context of Iberdrola and is structured around three central pillars of ESG (Environmental, Social, and Governance) sustainability. The evaluation of a supplier's performance is based on several critical attributes, including the establishment of objectives linked to the Sustainable Development Goals (SDGs), the management of climate change risks, the implementation of circular economy strategies, conducting human rights due diligence, adherence to compliance standards, commitment to good governance, and upholding business ethics, among others (Iberdrola, 2023). Furthermore, to substantiate their claims and performance, suppliers are required to provide supporting evidence and documentation as this helps ensure transparency and accountability in the evaluation process.

The Sustainable Development Policy, as approved by the company's Board of Directors, places a central focus on promoting universal access to reliable power supply. Furthermore, the policy takes into account customers who may be economically disadvantaged or in vulnerable situations. It outlines specific procedures to protect these customers and puts in efforts to ensure their continuous access to electric power and gas supply, in alignment with the policies and regulations established by the competent government authorities in each relevant case.

Iberdrola is actively involved in a range of initiatives aimed at preventing, reducing, and compensating for the potential socio-economic impacts of its facilities. These initiatives are identified through impact assessments and consultations conducted in collaboration with affected communities. They are also subject to discussions with various stakeholders and local authorities. The topics that are the subject of consultation with all stakeholders include the protection of biodiversity, enhancement of infrastructure, job creation, educational opportunities, etc.

Regarding the customers, Iberdrola has identified customers as one of the material topics in its double materiality analysis. The company especially focuses on customer satisfaction, the sufficiency of the services, and the health and safety of the customers. Ensuring a reliable and consistent energy supply is crucial for customer satisfaction. Iberdrola, like other energy providers, invests in infrastructure, technology, and maintenance to minimise service disruptions. Additionally, the company informs its customers about more sustainable energy sources. Given the increasing emphasis on sustainability, energy companies, including Iberdrola, may offer renewable energy options. Allowing customers to choose cleaner and more sustainable energy sources can contribute to satisfaction, especially among environmentally conscious consumers. Furthermore, implementing innovative technologies, such as smart meters and energy management systems, can enhance the customer experience. These technologies empower customers to better understand and control their energy consumption.

The Audit and Risk Committee is obligated to handle the independent audit matters of the company and approves the Statutory Auditor and Contracting Relations Policy. The objective of this policy is to establish the role of the statutory auditor for the company's disclosures. This policy specifically outlines the procedures related to the selection, appointment, re-appointment, or removal of the statutory auditor for the reports of the company. Furthermore, this policy framework ensures that the auditing process is conducted professionally and in accordance with the law.

Iberdrola has implemented a whistleblowing policy to encourage the reporting of unethical behaviour, misconduct, or policy violations. This policy includes a confidential reporting mechanism, protection against retaliation for whistleblowers, an established investigation process, options for anonymous reporting, and communication with stakeholders about the policy.

Moreover, Iberdrola has an Anti-Corruption and Anti-Fraud Policy. The purpose of this policy is to convey a stance of opposition to fraud and corruption in all their forms to all the stakeholders of the company. This commitment is aimed at contributing to the realisation of goal sixteen of the Sustainable Development Goals (SDGs) endorsed by the United Nations (UN). In addition, this policy is established to reflect a steadfast commitment to penalisation of fraudulent acts or actions that facilitate corruption in any manifestation. This commitment is upheld through the maintenance of effective communication mechanisms, sensitivity- and awareness-raising initiatives among all professionals, and the cultivation of a corporate culture centred on ethics and honesty.

Ørsted

Ørsted, formerly known as DONG Energy (short for Danish Oil and Natural Gas), is a Danish multinational energy company that has made significant contributions to the transition towards sustainable and green energy sources. Originally founded in 1972 as a state-owned company focused on oil and natural gas, Ørsted underwent a major transformation in the 2010s. In 2017, the company decided to shift its primary focus from fossil fuels to renewable energy, selling its oil and gas assets and changing its name to Ørsted in honour of Hans Christian Ørsted, a Danish physicist who discovered electromagnetism.

Ørsted's vision is to operate a business that provides more to the natural world and society than it extracts. This means that the company is committed to incorporating solutions for some of the world's most significant societal challenges into its sustainable energy projects, with the aim of ensuring that the transition to green energy creates a long-lasting positive influence on the environment, biodiversity, and social structures.

Ørsted's primary mission is to achieve "just transition". According to Ørsted, "just transition" means shifting to renewable energy in a way that creates new, decent jobs, develops necessary talent and skills, and leaves no one behind (Ørsted, 2022). Ørsted tries to achieve this transition by integrating UN's SDGs into its corporate strategy. The company especially concentrate on SDG 7 (Affordable and Clean Energy), SDG 13 (Climate Action), SDG 8 (Decent Work and Economic Growth), and SDG 17 (Partnerships for the Goals).

According to Ørsted, its ultimate objective is to establish practices that rejuvenate both nature and society. The company's actions are intended to contribute to the complete decarbonisation of global energy systems while also seeking to restore and replenish nature. Additionally, the company is dedicated to identifying, preventing, and mitigating any potential negative impacts on human rights while fostering prosperous local communities through the creation of high-quality jobs and local economic advantages.

In order to become a renewable energy company Ørsted should integrate sustainability in every part of its organisational operations. Therefore it is necessary to make sure that corporate governance is aligned with this mission. To ensure the consistent integration of sustainability throughout its business model, Ørsted has established three closely connected strategic pillars: decision-making and accountability, in which sustainability criteria play a central role in guiding decisions within its asset project model; competencies and governance that have been put in place the necessary organisational structure to effectively address sustainability matters; culture and leadership in order to integrate sustainability into the mindset and behaviour of all the employees, and in return creating a culture based on sustainability and leading them with sustainability values and principles (Ørsted, 2023).

The Board of Directors at Ørsted holds the highest authority for supervising its sustainability efforts. The Board of Directors approves the sustainability targets in the corporate strategy and later approves the sustainability report. Audit and Risk Committee under the Board of Directors oversees the transparency of the sustainability reporting and approves the ESG performance report. With internal audit verifies the effectiveness of the sustainability programmes and projects and checks the compliance and reliability of the data.

Meanwhile, the Group Executive Team is responsible for the implementation of the company’s sustainability programmes, with continuous support from committees with special responsibilities to ensure these objectives are met. The Group Executive Team approves the portfolio of sustainability programmes, and assigns the obligations for these programmes. The Compliance, Sustainability and QHSE Committees are under and appointed by the Group Executive Team. The Compliance Committee is responsible for monitoring and ensuring compliance with various regulatory laws, industry standards, internal codes of conduct, and other relevant requirements that pertain to the company's business areas, including those related to sustainability. This oversight helps ensure that the organisation operates within the bounds of the law and adheres to ethical and sustainability guidelines. The Sustainability Committee is responsible for several critical aspects related to sustainability. These responsibilities include ensuring compliance with the organisation's sustainability commitment, approving the analysis of sustainability themes, reviewing the sustainability strategy, approving the environmental, social, and governance (ESG) data set, etc. This committee plays a crucial role in guiding and supervising the organization's sustainability efforts and commitments. And lastly, the QHSE Committee is responsible for various aspects related to quality, health, safety, and environment (QHSE). These responsibilities vary from ensuring that the organisation complies with its QHSE strategic priorities to monitoring the performance of QHSE programmes to evaluate their effectiveness in promoting quality, health, safety, and environmental objectives.

Ørsted's primary contribution to the environment lies in taking action, fostering collaboration, and achieving the decarbonisation of energy systems. Through renewable energy solutions, the company aims to play a leading role in driving the shift towards a more environmentally friendly world. However, the company's ambition extends beyond merely delivering low-emission renewable energy assets as the company strives to be at the forefront of providing fully decarbonised renewable solutions to facilitate the transition to a net-zero economy. To achieve its goals the company focuses on the double materiality principle in order to better understand its own actions and surroundings, and investigate the impact the company has on the environment and society.

Most importantly, Ørsted's objective is to execute these carbon-reducing efforts correctly, in a manner that is consistent with scientific guidelines, resulting in a lasting positive impact on the environment, biodiversity, and societies. The company has set a target of net-zero emissions for 2040 which has been validated by the Science-Based Target initiative (SBTi). This validation ensures that the company's reduction plans are in alignment with the scientific recommendations necessary to stay on course for limiting global warming to 1.5°C.

In Ørsted's case, the success of reducing carbon emissions is also dependent on how successfully and rapidly its supply chain reduces the carbon emissions. Furthermore, the actions of the suppliers' suppliers also play a significant role, emphasising the need for active collaborative actions of whole supply chain.

While Ørsted generates renewable electricity with minimal direct emissions, there are still emissions associated with the production, installation, and transportation of the renewable energy infrastructure. As Ørsted expands the green energy projects, these emissions are expected to increase. As a result, the company must identify and select methods to separate the expansion of the projects from the growth of emissions in the supply chains, and this process requires gaining a deeper understanding of these emissions. Moreover, the company believes that coal has no spot in the future energy system, and it should be phased out of use by 2025.

The transition to renewable energy holds immense potential for creating a positive impact on nature and biodiversity. Therefore the company believes that the expansion of renewable energy infrastructure can play a role in addressing the biodiversity crisis, and as this expansion gains momentum, its potential to contribute positively increases. In 2021, Ørsted set a goal to ensure that all new renewable energy projects the company initiates from 2030 onward will have a net positive impact on biodiversity.

Ørsted's mission is to meet the demands of science by advancing green energy expansion at the necessary pace and scale. Consequently, the adoption of circular resource practices is fundamental to ensuring the availability of critical materials for its expansion and achieving sustainability objectives. By integrating circular resource use principles into every aspect of its operational model, the company aims to minimise waste, increase the reuse and recycling of its key components and materials, and contribute to the flourishing of the natural environment.

The majority of Ørsted's heat and power generation primarily relies on wind energy. There are a few key areas to consider when creating wind farms such as installation of wind turbines and their foundations, installation of transmission cables, etc. To address these concerns Ørsted has developed an offshore wind biodiversity policy that focuses on the efforts to protect nature in the areas where offshore wind farms are built.

As mentioned before, most of Ørsted's energy generation relies on wind energy, which involves almost no direct freshwater use. Currently, 99% of Ørsted's total water withdrawals involve seawater rather than freshwater (Ørsted, 2023). In order to further reduce and replace freshwater withdrawals, the company has initiated a working group to explore additional initiatives that make use of alternative water sources, including rainwater, produced water, and desalinated seawater (Ørsted, 2023). Ørsted has adopted a water management policy in order to control and address its water consumption. The water management policy serves to raise awareness about water-related impacts, engage with stakeholders to manage water resources, set metrics and targets, reduce water consumption and reduce harmful chemicals, etc (Ørsted, 2022).

The Ørsted resource management policy reflects a commitment to sustainable resource management and environmental responsibility. This policy is designed to address the urgent need to raise control over natural resource use, given the current rate of consumption that exceeds the Earth's ability to replenish these resources. The key points of the policy include: raising awareness, value chain analysis, and promoting reduce, reuse, and recycle, circular value chains.

To achieve substantial carbon savings compared to fossil fuels, Ørsted focuses on using biomass for energy generation. Ørsted's biomass is primarily wood pellets and wood chips derived from wood residues (Ørsted, 2023). Slowly, biomass has replaced coal energy for the company. Moreover, biomass holds a significant position in the Danish energy system. Biomass is a valuable alternative energy source, especially in countries where sunlight or wind is not available. Denmark has enacted the most ambitious biomass legislation in Europe, which the company considers crucial for the continued use of biomass. This legislation includes provisions for protecting biodiversity, ecosystems, and carbon stocks, as well as achieving significant reductions in carbon emissions.

The success of Ørsted's renewable energy ambitions depends on its ability to create an expansion that benefits people. This entails not only risk prevention and mitigation but also generating positive impacts and opportunities.

A critical initial step in achieving this is to establish robust human rights practices that encompass its entire business. This includes the company's own operations, supply chains, and the communities where they are present. These practices are essential for ensuring that the development of green energy respects fundamental human rights, forming the foundation for a sustainable and fair future for all. In addition, the company has adopted a human rights policy which is approved by the Sustainability Committee. The human rights policy focuses on ending all of the forced and child labour, eliminating all the discrimination against minorities, payment of decent wages, etc.

As the transition to renewable energy will have a significant impact on society and various communities, it will create new employment opportunities, influence land and sea usage, and generate greener prospects.

From the social point of view, Ørsted's aim is to be a reliable renewable energy partner for its customers, employees, and communities it operates in. Therefore, the company has adopted a stakeholder engagement policy. This policy plays a pivotal role in shaping Ørsted's sustainability initiatives, and processes, enabling the company to align these initiatives with the interests and perspectives expressed by stakeholders. The insights derived from these ongoing dialogues are used in the double materiality assessment the company undertakes.

Adhering to principles of openness, transparency, and integrity, Ørsted's stakeholder engagement policy aligns with the United Nations Guiding Principles on Business and Human Rights, the United Nations Declaration on the Rights of Indigenous Peoples, and the

International Finance Corporation's Performance Standards on Social and Environmental Sustainability (Ørsted, 2024).

To ensure accountability and transparency, the company regularly communicates the views and interests of affected stakeholders regarding its sustainability-related impacts to the Sustainability Committee.

Ørsted focuses on enhancing the integration of community engagement tools into its procedures to deliver a positive social impact on communities. This involves taking action in areas such as growing industrial ecosystems, including disadvantaged communities, designing for coexistence, and sharing benefits (Ørsted, 2023). These actions help create a more inclusive and collaborative approach to the transition to renewable energy. Growing industrial ecosystems involves supporting the development of local ecosystems, and fostering growth in local talent, and businesses. Including disadvantaged communities is geared toward reducing the obstacles faced by marginalised communities and individuals, ensuring they have access to and can make use of the opportunities presented. The goal of designing for coexistence is to promote active community participation and engagement throughout the projects' design and development stages, emphasising collaboration and cooperation. Sharing benefits entails implementing effective strategies to ensure that communities can derive benefits from the expansion beyond just employment, promoting a broader positive impact.

As the renewable energy sector experiences rapid growth, the demand for a suitably skilled workforce to sustain this expansion is increasing significantly. Within Ørsted, the company plans to substantially increase its number of employees however, the demand for skilled professionals in various fields already exceeds the supply, and it is expected that key skills gaps and shortages will continue to grow. Therefore, the company's approach is centred on finding a balance between a long-term perspective and meeting short-term needs, both for the organisation and for its people. Alongside enhancing its internal employee development, Ørsted must intensify its efforts to create a global external talent pool. This includes activities such as raising awareness of the opportunities in the green energy sector, increasing educational opportunities, equipping individuals with the necessary skill sets, and promoting individuals who drive innovation (Ørsted, 2023).

Ørsted also desires to comprehensively understand and address important human rights considerations as it expands its projects and supply chains into new markets. Underpinned by its Global Human Rights policy, the company tries to uphold human rights in every facet of its operations. This policy contributes to the way Ørsted complies with the UN Sustainable Development Goals (SDGs) and describes how the company respects human rights. Furthermore, the scope of this policy covers employees within the company, as well as, suppliers and business partners. In addition, the company tries to proactively identify and address potential risks of negative human rights impacts. For 2023, the company set an aim for developing external human rights reporting to enhance transparency and accountability. By recognising and addressing the most important risks, Ørsted can ensure that its business operations have a more positive impact on human rights throughout the whole value chain.

Ørsted’s renewable energy assets heavily rely on various metals, including rare earth elements for wind turbine magnets, copper for transportation cables, and lithium for batteries (Ørsted, 2023). The extraction of minerals and metals depends on long supply chains, where, Ørsted has limited control over their activities. However, the company is sure that it is tasked with addressing risks specific to its supply chain. Therefore the company engages and collaborates with suppliers in order to achieve transparency across the whole supply chain.

Ørsted's diversity and inclusion policy is founded on three core principles: commitment to equal opportunities, the belief in diversity and inclusion, and contributing to social sustainability (Ørsted, 2022). Furthermore, the company has set a goal for 2030 in order to achieve a 40:60 gender balance (women:men).

In order to protect its people and assets, and advance the sustainability goals, Ørsted has established rigorous standards for Quality, Health, Safety, and Environment (QHSE). With this policy, the company aims to bolster sustainable business performance through four key pillars: quality, which is to consistently meet stakeholder expectations while upgrading efficiency; health, as the company is dedicated to maintaining the well-being of its personnel; safety, in order to manage risks to the lowest reasonable levels, while ensuring the safety of the employees; and environment which is about minimising the company's environmental impact throughout the entire asset lifecycle.

Ørsted's process for safeguarding whistleblowers from punishment is articulated in its policy on good business conduct. For those who opt to remain anonymous, neither Ørsted nor their web service provider can track or identify the individuals making the reports (Ørsted, 2024). Furthermore, the company has instituted a standard operating procedure to guarantee that allegations are subjected to thorough and objective investigations.

Ørsted has released its anti-bribery and corruption position by articulating a zero-tolerance policy towards such practices.

To ensure its suppliers adhere to the company policy on good business conduct, Ørsted conducts thorough know-your-counterparty (KYC) screenings (Ørsted, 2024). This process involves screening for anti-bribery and anti-corruption compliance, and adverse media coverage.

In addition, the Internal Audit team conducts regular audits to assess the effectiveness of the company's anti-corruption and anti-bribery measures. Operating autonomously and reporting directly to the Audit & Risk Committee, the Internal Audit team remains independent from day-to-day management affairs, ensuring impartiality and integrity in these investigations.

IV. Discussion

In the contemporary corporate governance landscape, the integration of environmental, social, and governance (ESG) principles with regulatory compliance has sped up the transformation to a more sustainable corporate governance model for businesses operating within the European Union (EU). This section delves into a nuanced discussion, examining the complex dynamics and implications of ESG integration alongside compliance frameworks. As corporations navigate an evolving socio-economic and regulatory environment, the synthesis of ESG considerations with compliance practices emerges as a crucial factor in influencing decision-making processes and shaping the future trajectory of corporate governance.

The discourse displayed in this discussion part unfolds global awareness surrounding sustainability, ethical business conduct, and the necessity for companies to align their strategies with broader societal and environmental goals. Within the EU, renowned for its commitment to sustainable development and regulatory demands, this merger of ESG and compliance portrays a new paradigm for corporate governance. Even though, there are some big concerns about the European Commission's recently adopted directives and standards. The NFRD adopted in 2014 became obsolete and insufficient as the stakeholders and policymakers soon realised that it did not meet the expectations. The NFRD suffered from several deficiencies such as lack of comparability, reliability and relevance of non-financial information provided (European Parliament, 2021), since there was a minority of companies providing comprehensive and reliable sustainability-related information, at large quality and comparability of companies' sustainability reporting is not sufficient to understand their impacts, risks, or even their plans (Corporate Justice Coalition, 2020). ESRS also got its part from harsh criticisms. The WWF warned the ESRS limit the ability of investors and other users of the information to obtain reliable and comparable sustainability data from companies (Balkan Green Energy News, 2023), as the standards do not require the companies to justify why they choose not to share certain sustainability-related information. In addition, companies with employees fewer than 750 are allowed a period to phase in as they have never been subjected to such standards before. However, this, in return, caused an uproar as some believe this prevents the stakeholders from evaluating the firm's actual sustainability metrics.

Moreover, the CSDDD is facing a strong backlash right now. According to the World Wide Fund for Nature (WWF), almost 70% of European companies have been removed from the new obligations due to the changes to the draft text (Armstrong, 2024). They fear that this erosion might make this seminal legislation less impactful (Botwright & Feingold, 2024).

The discussion in this thesis seeks to unravel the implications for corporations operating in the EU, shedding light on how ESG and compliance come together to redefine governance structures. In doing so, this discussion aims to contribute to the academic discourse surrounding corporate governance and inform practitioners, policymakers, and stakeholders about the evolving nature of responsible and compliant business practices within the European context. Moreover, this discussion section gets into the specific nuances of ESG and compliance within the energy landscape, focusing on key industry players - Enel, Iberdrola, and Ørsted. As pillars of the EU energy sector, these companies not only embody the transformative potential of ESG integration but also explain the challenges and opportunities inherent in aligning business strategies with sustainability and regulatory requirements.

Against the backdrop of a rapidly evolving global energy landscape and an intensifying focus on sustainable practices, the EU stands on the frontlines in advancing environmentally conscious and socially responsible business conduct.

In this context, the energy sector plays a pivotal role, given its profound impact on the environment and society. This discussion seeks to straighten out how Enel, Iberdrola, and Ørsted, as leading entities within the energy sector, navigate the intricate interplay between ESG considerations and regulatory compliance, shaping a new era in corporate governance.

The narrative unfolds through an exploration of the strategic decisions made by these companies to embrace ESG principles, the challenges encountered in adhering to strict compliance frameworks, and the relationship between sustainable practices and regulatory requirements.

As the energy landscape undergoes an intense transformation, with an increasing emphasis on decarbonisation and social responsibility, the experiences of these industry leaders serve as informational and exemplary case studies. Through a focused examination of the interplay between ESG and compliance within the energy sector, this discussion aims to offer a comprehensive understanding of the evolving governance paradigms, shedding light on the strategies that drive these companies towards sustainability, and regulatory alignment.

Integrating ESG considerations into corporate governance practices has emerged as a pivotal paradigm shift within the EU. As discussed in the literature review section of this thesis, the EU has advocated for sustainable business practices, emphasising the importance of ESG criteria in decision-making processes. For Enel, Iberdrola, and Ørsted, this shift necessitates the readjusting of corporate strategies to align with the EU's sustainability goals. These companies, as major players in the energy sector, must not only comply with existing ESG regulations but also actively contribute to the region's transition towards a low-carbon economy.

Examining the ESG performance and compliance of Enel, Iberdrola, and Ørsted reveals interesting insights into their respective approaches to sustainable corporate governance. Enel, as a multinational energy company, has demonstrated a commitment to renewable energy sources and community engagement, while Iberdrola has been proactive in its investments in clean energy infrastructure. On the other hand, Ørsted, with its specific focus on renewable energy, stands out as a pioneer in offshore wind energy. This comparative analysis highlights the diverse strategies employed by these companies to integrate ESG principles into their operations, emphasising the nuanced nature of ESG implementation within the energy sector.

Based on a sample of companies in this thesis, there are some similarities identified among these companies:

1. Participation in the UN’s 2030 Agenda for Sustainable Development, as well as, compliance with directives of the European Commission.
2. Double materiality principle: all the companies focus on financial gains and as well as, on sustainability information.
3. ESG integration: all the companies have demonstrated a proactive approach to integrating ESG factors into their core business strategies.

Regarding the first aspect, all the companies concentrate on the UN’s 2030 Agenda for Sustainable Development. Enel, Iberdrola, and Ørsted align their business activities with the United Nations Sustainable Development Goals (SDGs). The SDGs are a set of 17 interconnected goals addressing global challenges, including poverty, inequality, climate change, environmental degradation, peace, and justice. There are some specific similarities among these companies in what SDGs they choose to focus on:

1. SDG 7: Affordable and Clean Energy: companies play a significant role in promoting affordable and clean energy. They invest heavily in renewable energy sources such as wind, solar, and hydroelectric power.
2. SDG 13: Climate Action: they actively address climate change through their commitment to reducing carbon emissions. They have set targets to achieve carbon neutrality and reduce their carbon intensity. Investments in renewable energy projects and the development of innovative technologies for sustainable energy production contribute to this SDG.

Moreover, the companies comply with the EU directives related to the ESG to improve their sustainability performance. The company law in Europe is in a state of transformation to a more stakeholder-focused model. Starting with the Non-financial Reporting Directive, the European Commission constantly adopts new directives to update the content of them and the scope of the companies they cover. The process continues with the adoption and implementation of European Sustainability Reporting Standards (ESRS).

Regarding the second aspect, all the companies focus on the double materiality principle. Being the motivation for the European Commission's Corporate Social Responsibility Directive and European Sustainability Reporting Standards, double materiality focuses on two factors. The first is financial metrics and the second is sustainability information. All the mentioned companies base their corporate strategies on the double materiality principle which serves to satisfy both their shareholders and as well as all the other internal or external stakeholders. In other words, the companies disclose all the relevant information to their stakeholders, whether it is financial or sustainability-related information. For this matter, they conduct double materiality to identify the material topics both for the stakeholders and for the company's strategy. The materiality analysis has been present in Enel and Iberdrola for years, however, Ørsted conducted its first double materiality assessment for the year 2023 for compliance with Corporate Social Responsibility Directive and new European Sustainability Reporting Standards.

As related to the third aspect, firstly, the companies have set ambitious sustainability targets, including decarbonisation of their energy mix and promotion of renewable energy sources. These companies show their commitment to environmental responsibility through their renewable energy projects, energy efficiency initiatives, and a clear roadmap to achieve carbon neutrality.

Enel, Iberdrola, and Ørsted, as leading energy companies, share several similarities in their environmental sustainability actions. These similarities reflect a collective commitment to addressing climate change, promoting renewable energy, and minimising their environmental impact.

All three companies have set ambitious targets to achieve carbon neutrality within specific timeframes. They are committed to reducing or offsetting their carbon emissions to mitigate the impact of their operations on the environment. These targets align with international efforts to limit global temperature increases and combat climate change. The companies have set the goal of limiting global warming to 1.5°C in accordance with the United Nation's 2018 Paris Agreement. The companies have set decarbonisation as one of their goals and all of them aim to achieve net zero carbon emissions by the year 2040.

These companies implement comprehensive strategies to reduce greenhouse gas emissions throughout their value chains. This includes emissions reduction commitments in line with science-based targets, deployment of advanced technologies, and continuous monitoring and reporting of emissions to track progress over time.

The emissions put out by the companies are subject to the Greenhouse Gas (GHG) Protocol which was initiated in 1998 by the World Resources Institute (WRI) and the World Business

Council for Sustainable Development (WBCSD) with the mission to develop internationally accepted greenhouse gas (GHG) accounting and reporting standards for business and to promote their broad adoption (World Business Council for Sustainable Development; World Resources Institute, 2004). According to this protocol, the emissions are divided into three scopes according to the companies' own operations and their wider value chain. Scope 1 refers to direct emissions owned and controlled by a company. Scope 2 involves indirect emissions resulting from the production of energy purchased and used by the company. Scope 3 includes emissions that are not produced by the company itself but extend to activities up and down its value chain.

For Enel, 99% of emissions in Scope 1 come from power generation and the rest are from other direct greenhouse gas emissions (Enel, 2023). Scope 2 includes the generation of electricity acquired and utilised by the company including the activities related to civilian usage, and energy generation in the company plants, as well as the assets involved in electricity distribution.

Figure 1 below demonstrates the GHG emissions put out by Enel over a three-year period (2021-2023). In addition, the figures display the emissions according to the scopes. As it can be seen from the chart there are fluctuations in GHG emissions put out by the company. While Scope 2 emissions stayed relatively stable, the emissions categorised under Scope 1 kept decreasing steadily while Scope 3 showed some fluctuations.

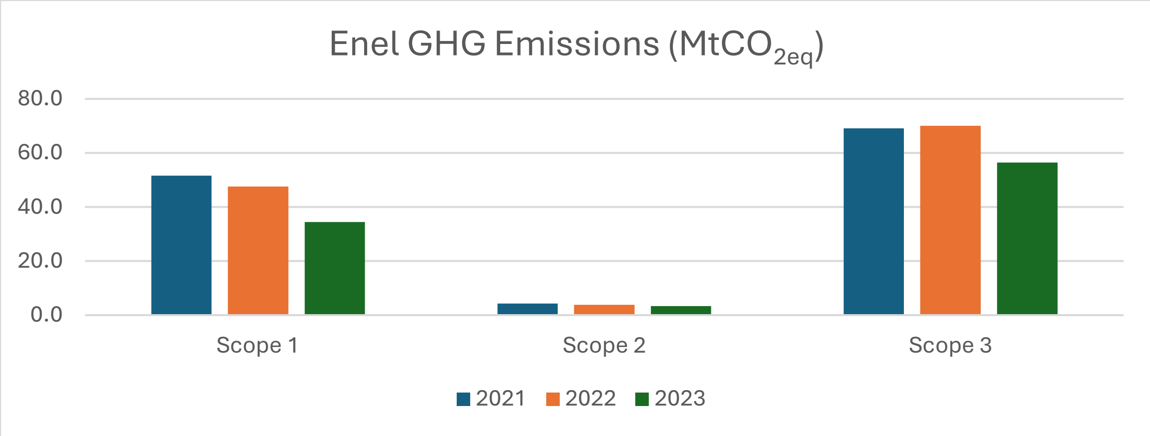

Figure 1: Enel GHG emissions over the years (Enel, 2023), (Enel, 2024)

For Iberdrola, Figure 2 displays the GHG emissions of the company over the past three years (2021-2023). The Scope 2 emissions of Iberdrola stayed nearly constant while maintaining a downward trend. While the others, unlike Enel, showed a continuous decrease during the given period.

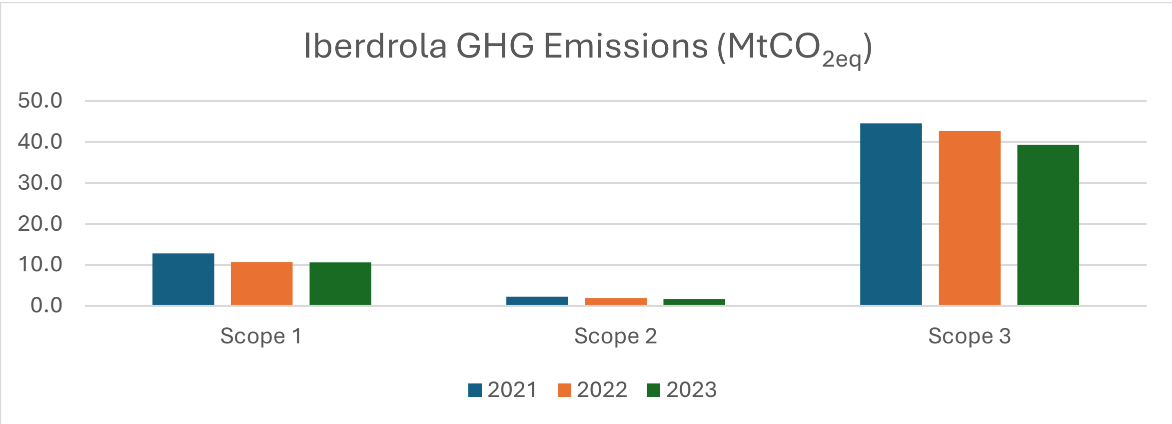

Figure 2: Iberdrola GHG emissions over the years (Iberdrola, 2023)

For Ørsted, the Scope 1 direct emissions increased from 2,142 thousand tonnes of CO_2 in 2021 to 2,510 thousand tonnes of CO_2 in 2022, before showing a significant drop to 1,585 thousand tonnes of CO_2 in 2023. The Scope 2 emission indirect emissions decreased from 53 thousand tonnes of CO_2 to 45 thousand tonnes of CO_2 in 2022, nevertheless more than doubled in 2023, reaching 93 thousand tonnes of CO_2 in 2023. The Scope 3 emissions showed a sharp fall from 18,179 tonnes of CO_2 in 2021 to 10,983 thousand tonnes of CO_2 in 2022 before finally dropping to 5,631 thousand tonnes of CO_2 in 2023. For Ørsted the GHG emissions showed significant fluctuations for Scope 1 and Scope 2, while there is a continuous downward trend in Scope 3 emissions (Ørsted, 2024).

Enel, Iberdrola, and Ørsted are actively involved in initiatives to decarbonise their operations. This involves transitioning away from traditional, carbon-intensive energy sources and embracing cleaner alternatives. They are phasing out coal-fired power plants and investing in technologies that support low-carbon and carbon-free energy production. Enel has set a goal of exiting coal-fired energy by 2027 and Ørsted plans to do the same around 2025, while Iberdrola closes its coal-powered plants one by one and plans to achieve completely clean energy by the 2040s. However, this matter has been quite challenging for the companies because of the Russia-Ukraine war that has caused an energy crisis in the EU. As Ørsted had been ordered by the Danish government to keep its coal- and oil-fired power stations running until June 30, 2024 (Frangoul, 2022), changing the company's original plan of becoming coal-free by 2023. All three companies have made substantial investments in renewable energy sources, such as wind, solar, and hydroelectric power. They prioritise the development and expansion of clean energy projects as a means to reduce reliance on fossil fuels, decrease greenhouse gas emissions, and contribute to the global transition to sustainable energy.

For example, Enel has developed a project for supplying electricity to Sardinia, 'Green Electrification of Sardinia'. The project seeks to significantly transform Sardinia's energy framework by 2030, giving environmental, social, and economic benefits to the entire region and its communities. The electrification scheme aims to gradually eliminate production from fossil fuels and increase the proportion of energy produced from photovoltaic and wind power (currently 7% and 15% respectively) (Enel, 2023). The initiative is closely aligned with the United Nations' 2030 Agenda, which is centred on achieving the 17 Sustainable Development Goals (SDGs). In particular, the project aligns with SDG 7, focusing on 'Affordable and Clean

Energy' as this SDG seeks to ensure universal access to affordable, reliable, sustainable, and modern energy systems, aligning with the climate change commitments outlined in the 2015 Paris Agreement. Additionally, the project is included in the Multi-stakeholders Energy Compact of the United Nations and is considered as a model for the diffusion of electrification and energy transition at the global level (Industrial Valve Summit, 2021).

Moreover, at the end of 2023, Iberdrola obtained environmental approval for the first hybrid plant in Spain that combines photovoltaic and hydroelectric plants (Ingram, 2024). Hybridisation enables the efficient utilisation of the grid and the reduction of environmental impact in specific project locations. Incorporating two adaptable technologies minimises dependence on fluctuating environmental factors and mitigates limitations related to potential resource shortages, such as variations in wind or sunlight. This promotes a more stable and effective renewable energy production process.

Furthermore, Iberdrola's main focus is using wind energy as a resource for renewable energy. This involves the establishment of both onshore and offshore wind farms. Onshore wind farms are situated on the land, while offshore wind farms are on the areas of water. For instance, Iberdrola's La Plana III wind farm, located in Zaragoza, Spain, exemplifies its commitment to expanding renewable energy capacity within its home country. Additionally, the Saint-Brieuc wind farm, situated in Saint-Brieuc Bay, France, is planned to commence operations in 2024 and serves as an example of an offshore wind farm. This particular offshore facility capitalises on the robust wind and water tides in Brittany, marking it as the first large-scale offshore wind farm in the region and the initial one in France to secure all necessary permits for both construction and ongoing operations (Iberdrola, 2023).

Ørsted envisions a world powered entirely by green energy. The company engages in the development, construction, and operation of both offshore and onshore wind farms, solar farms, energy storage facilities, renewable hydrogen, and green fuels facilities, as well as bioenergy plants. Notable, in 2021, Ørsted became one of the seven companies with science-based net-zero targets verified by the Science Based Targets initiative (SBTi) and the first energy company in the world with a validated net-zero target (Ørsted, 2021). The SBTi's Corporate Net-Zero Standard is the world's only framework for corporate net-zero target setting in line with climate science as it includes the guidance, criteria, and recommendations companies need to set science-based net-zero targets consistent with limiting global temperature rise to 1.5°C (Science Based Targets, 2021).

Ørsted has been successfully operating the Borssele 1 & 2 offshore wind farm. This achievement positions it as the largest offshore wind farm in the Netherlands and the second-largest operational offshore wind farm globally. Borssele 1 & 2 contributes to sustainable energy by generating enough green electricity to meet the needs of one million Dutch households (Ørsted, 2020). This wind farm marks a significant milestone in the green transformation journey and for Ørsted. Starting with Borssele 1 & 2, the company aims to play a pivotal role in supporting the Dutch shift from fossil to renewable energy sources.

Enel, Iberdrola, and Ørsted recognise the importance of biodiversity conservation. They implement measures to minimise the impact of their projects on ecosystems, engage in habitat restoration, and work to protect and preserve biodiversity in areas where they operate. Both Enel and Iberdrola have set goal of stopping and reversing biodiversity loss by the year 2030.

For instance, to preserve the biodiversity Enel has started an urban beekeeping project. Urban beekeeping means the practice of raising bee families in urbanised areas (Apicoltura Urbana Come Educazione All'ambiente e Inclusione Sociale, 2021), contributing to biodiversity within city settings. This practice has integrated into the corporate social responsibility initiatives of companies worldwide, allowing them to actively engage in environmental protection and biodiversity conservation efforts. This project also has a social dimension as through this initiative the company plans to conduct educational classes, aiming to educate the participants about the importance of bees while also allowing the participants to interact with them. This initiative aligns with the objectives of Sustainable Development Goal (SDG) 11, which emphasises the need to create inclusive, safe, resilient, and sustainable cities and urban settlements. Additionally, it is in harmony with SDG 12, which focuses on ensuring sustainable patterns of production and consumption (Enel, 2022).

Furthermore, since there is a shift from electricity generation and distribution by traditional methods to more sustainable methods of energy, the companies construct and operate grids from renewable energy sources. However, the generation, operation, and distribution of energy even from renewable energy sources have negative effects on the environment. For the protection of biodiversity, Iberdrola has implemented several projects. One of the projects of Iberdrola is the Tâmega hydroelectric complex in Portugal which stands out as one of the largest hydroelectric projects undertaken in Europe over the past 25 years. Due to its substantial energy storage capacity, it is one of the most important electricity projects in the southern part of Europe. For the development of this hydroelectric complex, several studies in various aspects such as flora, fauna, and water resources have been conducted and several measures have been taken. These measures rely on the implementation of the company's Flora and Fauna Compensation Plan in collaboration with Portuguese environmental authorities. The plan includes compensation measures, such as continuous monitoring of flora and fauna, relocation of different kinds of animals and plants, repopulation efforts, and enhancements to aquatic ecosystems (Iberdrola, 2023).

Ørsted has collaborated with WWF Denmark on an innovative initiative aimed at assessing the potential benefits of 3D-printed reefs for biodiversity in the Kattegat region. Years of overfishing, increasing oxygen depletion near the seabed, and habitat loss have all led to a decline in the cod stock in the Kattegat over the last 20 years (Ørsted, 2022). This decline has reached an alarming level, causing a detrimental impact on the entire ecosystem.

Ørsted has deployed twelve 3D-printed reef structures on the seabed, situated between the wind turbines at the company's Anholt Offshore Wind Farm (Ørsted, 2022) . This initiative is a result of the partnership with WWF Denmark which started in 2018. Its purpose has been to contribute to saving the world's climate-threatened wildlife and nature, while also engaging the Danish population in solutions to global warming and creating a society that runs solely on green energy (Durakovic, 2022). The 3D-printed reefs placed on the Kattegat seabed aim to enhance the availability of habitats for cod, as a result, this will accomplish a more balanced marine ecosystem. The company aims to contribute to the revival and sustainability of the marine environment, enhancing its capacity to support a robust and diverse range of species.

Environmental management is not just limited to reducing carbon emissions and biodiversity protection. Water management and waste management are the other important aspects that the companies focus on.

The amount of waste put out by Enel as a result of its operational and maintenance activities was 6.7 million tonnes in 2017. However, this amount was reduced to 3.3 million tonnes in 2023, nearly half of the amount in 2017. For the future, Enel has set a target of reducing waste to 3 million tonnes in 2030. Furthermore, 78% of the operational and maintenance waste produced was sent for recovery (Enel, 2024). In addition, Enel uses recycled materials in its operations and grids, such as recycled plastic used in its solar panels.

To continue with waste management efforts Iberdrola has set some challenges to achieve by 2030, such as a 50% reduction in primary material consumption which aims to decrease the consumption of primary materials for electricity generation by half compared to the levels in

2020, and 50% sustainable steel by 2030 and 100% by 2050. Moreover, the total waste generated by Iberdrola dropped from around 472 thousand tonnes in 2021 to approximately 337 thousand tonnes in 2023 (Iberdrola, 2023).

Ørsted increased its diverted waste from disposal from 72% in 2022 to 84% in 2023 (Ørsted, 2024). By increasing its circular use of resources, Ørsted believes to diminish its effects on biodiversity loss. Also, actively increasing the use of recycled materials in its solar panels.

Enel has set an important target of reducing freshwater usage. The freshwater consumption which was 0.43 l/kWh in 2017, was reduced to 0.20 l/kWh in 2023 and the company has set the target of reducing freshwater consumption to 0.15 l/kWh in 2030 which is 65% decrease compared to 2017 (Enel, 2024).

Iberdrola's overall water usage has faced some fluctuations over the past 3 years. The water consumption was around 87 million litres which decreased to approximately 76,6 million litres in 2022 but increased to nearly 79,8 million litres in 2023 (Iberdrola, 2023).

Ørsted has cut down its freshwater withdrawal from 54 m^3/kWh in 2021 to 46 m^3/kWh in 2022 and has set a target of lowering it to 32 m^3/kWh in 2025. This is a 40% reduction in freshwater withdrawal intensity by the end of 2025 compared to 2021 (Ørsted, 2023).

Enel also places special emphasis on the pollution caused by its activities and has set targets to achieve significant reductions in its output of dust, sulphur oxides, and nitrogen oxides. The goal is to decrease dust output by 60%, nitrogen oxides by 70%, sulphur oxides by 85% compared to the base year 2017 (Enel, 2024). So far Enel's nitrogen oxide output has dropped from 0.55 g/kWh in 2017 to 0.26 g/kWh in 2023, while sulphur oxide volume decreased from 0.36 g/kWh to 0.09 g/kWh in 2023 (Enel, 2024).

Iberdrola has developed plans and precautionary measures such as building tanks to collect oil in the event of a mass spillage at substations and transformation centres and the installation of containment barriers in sensitive environments (Iberdrola, 2023).
Over and above that, the companies are engaged in community outreach programmes, support education and social development projects, and foster diversity and inclusion within their workforce. Enel, Iberdrola, and Ørsted, exhibit similarities in their commitment to social sustainability. These actions reflect a shared dedication to fostering positive social impacts, engaging with local communities, ensuring fair labour practices, and promoting inclusivity.

Enel, Iberdrola, and Ørsted prioritise engaging with local communities near their operational sites. They proactively seek to understand and address community needs, involve local stakeholders in decision-making processes, and contribute to the social and economic development of these communities. This approach helps build positive relationships and ensures that their projects align with the interests of residents. These companies invest in educational and skills development programs within the communities where they operate. By supporting education initiatives, vocational training, and skill-building programmes, they contribute to the development of local talent and enhance the employability of community members. This focus on education aligns with broader efforts to create sustainable, resilient communities.

For example, the consequences of the global health crisis, combined with shifts in international political-economic dynamics, are escalating the danger of societal and economic exclusion, particularly impacting the most susceptible part of the population, including those in Italy.

ISTAT data from the June 2022 Press Release reveals that absolute poverty in Italy, as of 2021, has maintained its highest point, which was initially reached in 2020 (Istituto Nazionale di Statistica, 2021). This circumstance disproportionately affects specific demographics, notably the migrant population and individuals in Southern Italy, where there are significantly elevated rates of youth unemployment.

In response to this challenging situation, the AVSI Foundation which has been actively engaged in Italy since 2015, started collaborating with local, public, and private entities. The foundation conducts development cooperation and humanitarian aid projects in 40 different countries (AVSI Foundation, 2024), employing an integrated approach that encompasses education, healthcare, the economy, employment, and the environment, while contributing to all 17 Sustainable Development Goals (SDGs) outlined in the 2030 Agenda (AVSI Foundation, 2024).

Aligning with this strategy, Enel, in partnership with the AVSI Foundation and various regional collaborators, intends to execute the "Opening up to the Future" project in Calabria, specifically in the municipalities of Cosenza and Soverato (Enel, 2024). The initiative aims to implement programmes focused on reinstating vulnerable and unmotivated individuals in society.

The project contributes to society in two ways. Firstly, it enhances the motivation of unemployed youths and migrants on both personal and professional levels, making it easier for them to seek and find employment and a place in society. Secondly, the project aims to foster the growth of non-profit organisations in the area. Through these actions, the project aspires to contribute to the promotion of formal and inclusive work that economically develops the affected regions. Moreover, these actions actively promote diversity in their workforce, including gender diversity and representation of marginalised groups, as an inclusive environment not only enhances organisational culture but also contributes to innovation and better decision-making.

Additionally, recognising the value of diversity, these companies implement initiatives to foster inclusive workplaces. They actively promote diversity in their workforce, including gender diversity and representation of underrepresented groups. Creating an inclusive environment not only enhances organisational culture but also contributes to innovation and better decision-making.

To show an example, Iberdrola's participation in International Day for the Elimination of Violence against Women can be mentioned. As part of this initiative, athletes affiliated with the federations supported by Iberdrola emphasised the critical importance of reporting any instances of gender violence.

Moreover, the "Don't Look the Other Way" campaign is a virtual reality initiative jointly promoted by the Ministry of the Interior and the Ministry of the Presidency, specifically through the Delegation against Gender Violence (Iberdrola, 2022). The campaign was initiated as the result of increasing domestic abuse cases against women during the COVID-19 pandemic and features videos recorded using 360° technology, showcasing various forms of abuse against women. Iberdrola's Digital and Social Media Division played a crucial role in the creation of these videos, contributing their expertise and resources to bring the campaign to life.

Iberdrola is actively involved in promoting equality across all domains and is committed to the protection and empowerment of women. The company views this commitment as aligning with one of the Sustainable Development Goals (SDGs) of the highest priority, aiming to contribute to the creation of a better society for all.

Furthermore, Iberdrola's Equality, Diversity, and Inclusion Policy aims to foster an open-minded and inclusive work environment by taking diversity into account and also incorporates a section focused on combating gender violence. This involves the implementation of specific programs that encompass protective and supportive actions designed to accompany and safeguard the victims of gender violence. Through these initiatives, Iberdrola aims to contribute to creating a workplace and society that is more inclusive, diverse, and free from gender-based violence.

Ørsted has created a fund to finance social projects for the benefit of the communities the company operates. For the year 2024, the company accumulated 335 thousand euro in funds (Ørsted, 2024). The company plans to spend this to fund projects that support energy sustainability, and educational programmes that serve the community. It is possible to apply for funding on the official website of Ørsted with a proposal. After the evaluation, if chosen, the project may be funded for its entire lifespan.

And finally, for corporate governance, the companies aim to promote transparency, accountability, and ethical conduct by establishing strong governance systems and mechanisms to ensure compliance with regulatory requirements and ethical standards. The Board of Directors of the companies oversees the key ESG-related issues, including risk management, the strategy to reduce the influence on the climate, and social impact initiatives. The Sustainability Committees of the companies play an advisory role in assisting the Board of Directors to make decisions regarding sustainability related matters. Moreover, the sustainability reports of the companies provide stakeholders with comprehensive insights into their ESG performances, fostering transparency and accountability. Additionally, independent auditors assess the sustainability information disclosed by the companies and give their opinions about the disclosed information, point out the shortcomings, and also communicate their recommendations for further improvement in the future.

Enel, Iberdrola, and Ørsted are three prominent energy companies that have demonstrated a commitment to sustainability and environmental, social, and governance (ESG) principles in their corporate governance systems. While each company operates in the energy sector, they share several similarities in their approach to sustainability and ESG, reflecting a broader industry trend towards responsible business practices. These companies integrate ESG considerations into their decision-making processes. This involves evaluating the environmental, social, and governance impacts of business activities and investments. By incorporating ESG criteria, these companies strive to create long-term value for both shareholders and society at large. All three companies emphasise a long-term perspective in their corporate governance. This involves making decisions that not only benefit the current bottom line but also contribute to the sustainability of the business over the long term, aligning with the interests of both investors and the broader community.

In summary, Enel, Iberdrola, and Ørsted showcase similarities in their corporate governance systems, particularly in their shared commitment to sustainability and ESG principles. As these companies navigate the complex challenges of the energy transition, their governance practices play a crucial role in ensuring they remain resilient, responsible, and aligned with global sustainability goals.

Firstly, Enel, Iberdrola, and Ørsted have all positioned themselves as leaders in the transition to renewable energy. They have made substantial investments in wind, solar, and other clean energy sources, aligning their business strategies with the global push for decarbonisation.

Secondly, all three companies are committed to carbon neutrality. Each of these companies has set ambitious goals to achieve carbon neutrality within a specific timeframe. They recognise the importance of mitigating climate change and are actively working towards reducing their carbon footprint through a combination of renewable energy investments, energy efficiency measures, and offsetting initiatives.

Moreover, transparency is a key aspect of corporate governance in these companies. They regularly publish comprehensive sustainability reports that provide stakeholders with detailed information on their environmental and social performance. This commitment to transparency enhances accountability and helps build trust with investors, customers, and other stakeholders.

Recognising the interconnectedness of their operations with various stakeholders, Enel, Iberdrola, and Ørsted actively engage with stakeholders such as local communities, NGOs, and regulatory bodies. This engagement fosters dialogue and ensures that the companies consider a wide range of perspectives in their decision-making processes.

Diversity and inclusion are integral components of their corporate governance systems. These companies prioritise creating diverse and inclusive workplaces, understanding that a broad range of perspectives enhances innovation, decision-making, and overall business performance.

Compliance with ESRS

In 2021, the European Commission took a significant step toward enhancing sustainability reporting by proposing the Corporate Sustainability Reporting Directive (CSRD). This directive aimed to improve the disclosure practices of companies, extending beyond financial information to encompass non-financial data. Consequently, large organisations in the European Union were mandated to adopt European reporting standards. The responsibility for creating these standards fell to the European Financial Reporting Advisory Group (EFRAG). As a reminder, EFRAG is an organisation based in Brussels, established in 2001 with the support of the European Commission with the primary objective of providing technical advice on the adoption and application of international accounting standards within the European

Union. Tasked with developing a standard for sustainability reporting, EFRAG's efforts culminated in the creation of the European Sustainability Reporting Standards (ESRS). These standards are designed to facilitate a more comprehensive and standardised approach to sustainability reporting for organisations operating within the European Union.

The ESRS establish comprehensive reporting obligations for companies falling under the scope of the CSRD. Collectively, twelve ESRS mandate companies to furnish information on:

1. Governance structure and business strategy: Companies are required to disclose details about their governance structures and strategies employed to address material sustainability topics.
2. Impacts and risks and opportunities that come with it: The ESRS necessitate reporting on the impacts, risks, and opportunities that arise from these sustainability topics, offering an extensive view of their consequences.
3. Quantitative metrics and targets: Companies are expected to provide quantitative metrics and set targets, enabling a measurable assessment of their performance concerning sustainability.

In essence, the ESRS form a strong framework that guides companies in delivering their governance practices, strategic approaches to sustainability, challenges, and opportunities associated with relevant sustainability topics.

Enel, Iberdrola, and Ørsted conduct double materiality analysis to identify what ESG topics are the most important and material to the companies. These ESG topics are identified as strategic priorities and integrate these priorities into their corporate strategies, sustainability plans, and reports. The companies identify the ESG topic they want to focus on and take the stakeholders' input to strengthen their positive impact and reduce the risks associated with their business activities as well as their negative impact. The process of identifying priorities within a company follows nearly the same steps for all three companies: identification of ESG topics, identification of relevant stakeholders, appointing relevance to stakeholders, stakeholders appoint priority to the topics and at the end, companies assign priority to the ESG topics in their corporate strategies. Furthermore, the process of complying with public policies consists of the following actions: identification of main impacts on ESG trends by external stakeholders, appointment of priority to topics by external stakeholders, definitions and analysis of impacts, and setting priority to the most notable impacts. For the first time in 2024, Ørsted conducted its first double materiality analysis for the year 2023 in order to comply with ESRS. The materiality analysis is conducted in line with EFRAG's ESRS 1 standard – General Requirements standard. The companies integrated Global Reporting Initiative (GRI) standards to report the relevant sustainability information and to comply with this standard that establishes minimum criteria for disclosure.

Moreover, all three companies comply with the ESRS 2 standard, General Disclosures standard, which is mandatory for all companies. With this standard, the companies disclose all the information related to their business models, stakeholders, risk materiality assessment processes and sustainability targets.

The ESRS E1 standard focuses on climate and requires comprehension of the company's historical, present, and prospective measures to mitigate risks. This ensures the alignment of companies' strategies and business models with the shift toward a sustainable economy, to restrict global warming to 1.5°C as mentioned in the Paris Agreement. Moreover, it aims to achieve climate neutrality by 2050. In cases where applicable, the disclosure should also address the company's involvement in fossil fuel-related activities.

To comply with these requirements companies have set goals of participating in limiting global warming to 1.5°C and phasing out the use of fossil fuels. For example, Enel aims to exit coal-fired energy by 2027, Ørsted by 2025, and Iberdrola wants to phase out fossil fuels by the 2040s. However, since there is an energy crisis in the EU, the use of fossil fuels may increase. In 2022, due to the energy crisis, Ørsted was ordered by Danish authorities to continue its operations at some of its coal- and oil-fired power stations. Quickly transforming into renewable energy is one way to get out of this energy crisis.

The companies disclose the amount of their greenhouse gas emissions, and share of energy that is generated from renewable sources. The greenhouse gas emissions are reported according to the GHG Protocol. Moreover, the companies disclose the positive, and negative effects they have on climate change and the risks associated with their business activities. Since companies utilise renewable energy sources, this is a positive impact they have on the climate. However, even with the use of renewable energy sources, the companies do not stop producing GHG emissions. The GHG emissions related to supply chains, energy consumption at company plants, and energy sales still continue. Risks may be related to the lack of political support for renewable energy because of the energy crisis in the EU.

ESRS E2 standard has been identified as a material topic only by Enel. Enel has disclosed facts related to its output of pollutants to the atmosphere and has set targets for the reduction of them. However, this subject matter does not come up as a material topic to focus on both by the companies' own priorities and by the stakeholders in Iberdrola and Ørsted. Even though it was not identified as a material topic for Iberdrola, the company has disclosed that it has been implementing pollution prevention programmes to avert possible disasters in the future.

To meet the requirements of ESRS E3, water and marine resources standard, the companies, especially Iberdrola and Enel, have adopted several policies to manage their water usage. The companies especially focus on cutting down their freshwater withdrawal, optimising wastewater treatment, adopting modern technologies to maximise the efficient use of water resources and internal reuse of water. According to the first double materiality analysis conducted by Ørsted, the company hasn't identified this standard as material.

To comply with ESRS E4, biodiversity and ecosystems standard, the companies have established biodiversity policies and disclose information about their impact on the natural environment. This ranges from positive and negative impacts of their business activities to the projects they have funded and brought to life to mitigate the impact of their operations. The negative effects of the companies' actions include but are not limited to land degradation caused by mining, exploitation of natural resources, loss of habitats, and displacement of species.

In 2023, Ørsted became the first energy company in the world to issue blue bonds to finance its investments that specifically target offshore biodiversity and sustainable shipping (Ørsted, 2024).

To report data related to ESRS E5, resource use and circular economy standard, companies report data related to their usage of recycled and recyclable materials and how they communicate this information with their suppliers. Moreover, they try to lengthen the lifespan of their energy farms and plants by repairing, renovating, and reusing the key components to recycle these components when they reach the end of their life cycle so they can be reused in new supply chains. Moreover, Enel has set a target goal of reducing the waste coming from its operational and maintenance activities in order to align its policies with the ESRS E5 requirements.

The virgin materials are used in the supply chains which leads to waste generation. To support the circularity the companies have set up resource management policies to cover all of their operations. In addition, they disclose information about their waste management, the amount of waste they put out together with the supply chains and the share of the waste diverted from disposal.

Related to social matters, companies have to disclose information related to their own employees, the workers in the value chains, communities that are affected by their business operations, and their consumers.

To comply with ESRS S1, own workforce standard, Enel, Iberdrola, and Ørsted have laid out their own human rights policies based on international standards. These human rights policies focus on diversity in the workplace, gender equality, opportunities for employees to continue and grow in their jobs, internal policies against bullying, discrimination, and harassment in the workplace, and safety and health issues of the employees. To make sure the companies apply the same attention and care to the employees in the whole value chain and to comply with ESRS S2 standard the companies remain in close contact with those employees such as conducting on-site interviews to gain insights about workplace conditions from the perspective of workers. Furthermore, the companies collaborate with trade unions and civil organisations to maintain diverse and inclusive workplace environments.

With respect to ESRS S3, affected communities standard, the companies try to make sure their business activities have the support of the local community and the areas they operate. Collaborating with communities helps to create jobs and educational opportunities for the locals, additionally contributes to identifying the areas of biodiversity that need help, and assists in doing the restoration work in the affected areas. Moreover, companies have identified negative effects of their activities on the local communities such as the rights of local people can be breached as land, water, and air pollution can pose a great danger to the health and safety of local people. Companies have placed a section in their stakeholder engagement policies in order to communicate with local communities to grasp their perspectives about the companies' projects and their impacts.

To focus on ESRS S4 standard, consumers, and end users, the companies, particularly Enel and Iberdrola, mainly focus on delivering continuous electricity to their customers, focusing on their satisfaction. Moreover, they introduce and inform them about the possible renewable energy sources and give them options to switch to these new renewable energy options. Ørsted has not identified determined this standard as one of the crucial topics in its latest materiality analysis.

To focus on ESRS G1, business conduct standard, all three undertakings develop their own corporate policies to improve their ethical business practices, and mitigate risks and negative impacts. By focusing on this standard, the companies aim to build a healthy corporate culture, protect the whistleblowers, manage the suppliers while complying with the code of conduct, prioritise the fight against corruption and bribery. To deal with anti-corruption and bribery matters, the companies have established zero-tolerance policies against them that describe the processes for identifying and managing bribery and corruption risks in their business operations.

V. Conclusion

This research aims to contribute to the literature on changing corporate governance systems, sustainability standards, and ESG compliance. In this study, attention was especially focused on three European Union (EU) companies that operate in the energy sector. For this research, the history of ESG factors, the background of ESG in the EU, the energy sector, and the sustainability reports of these three chosen companies were investigated.

With the start of the 21st century the term ESG has been heavily promoted and popularised. All the stakeholders of the companies expect them not just to focus on maximising profits but also focus on reducing their negative environmental impact, improving the social conditions, and making these a part of the company's corporate policy.

With the establishment of the Global Reporting Initiative (GRI) in 1997 it has become easier for companies to report their sustainability performances since this initiative provides a framework, making it clear what is demanded from them. Since then several global actions have been taken to promote sustainability among companies. One of the latest and most important is the Sustainable Development Goals (SDGs) which were adopted in 2015 by the United Nations as the context of the 2030 Agenda for Sustainable Development. As a part of this Agenda, the United Nations developed 17 SDGs as a call for united and collaborative actions for a sustainable future.

It appears that there is an ongoing shift in the energy sector in the EU from traditional energy sources to more sustainable energy sources. This transition is encouraged by the European Union regulations and by the stakeholders of the companies.

Moreover, to follow the precedence set by international organisations the European Union started to adopt the directives to encourage the European companies to be more competitive in sustainability matters. In 2014, the European Commission instigated the Non-financial Reporting Directive (NFRD) which required large public interest firms to disclose their non-financial information alongside their financial information in their annual reports. As the NFRD soon became inadequate the European Commission had to adopt a new directive, Corporate Social Responsibility (CSRD) in 2018. With this directive, the scope of NFRD got bigger. Furthermore, when CSRD came into force in early 2024, the first set of European Sustainability Reporting Standards (ESRS) also came into force. The ESRS consist of 12 standards that serve to harmonise the disclosures across the regulations in the EU. The ESRS rely on the double materiality principle, meaning they demand companies to disclose information both of financial and impact materiality. There are several concerns about the reliability of these standards as some critics believe they may cause greenwashing by allowing the firms not to disclose certain sustainability information without an explanation. Moreover, critics of the ESRS claim allowing delay for some companies for a certain period of time to allow them to adapt, is going to block the way of investors from getting accurate measures of sustainability-related information from the firms.

Finally, the EU reached an agreement about the Corporate Sustainability Due Diligence Directive (CSDDD) in 2023 as a part of the European Green Deal. The CSDDD aims to establish due diligence processes for the companies to take responsibility for the negative effects they have on the environment and human rights, along with their worldwide value chains. However, there are bigger concerns about this directive, as it erases the most of European companies out of its scope, which experts claim, making it unimpressive.

This research focused on three European energy companies, Enel, Iberdrola, and Ørsted, and analysed their sustainability practices, and sustainability reports to identify their compliance with EU directives and standards.

The companies focus on United Nation's SDGs and try to align their corporate strategies with the SDGs. Their main concentration is on SDG 7, affordable and clean energy, and SDG 13, climate action, as they are more in range with the specialisation of the companies and their corporate strategies.

The companies conduct double materiality analyses to pinpoint the material topics from the both company and stakeholders' perspectives. The double materiality forces the companies to disclose information related to both financial and impact materialities. Both the companies and their stakeholders believe that concentrating on ESG factors is important to stay competitive in the industry.

The study also highlights that the companies take environmental and biodiversity matters seriously. They invest heavily to fund environment sustainability and biodiversity protection projects in order to reverse and reduce the negative effects they have on nature. Moreover, they have set goals of reducing their GHG emissions and achieving net zero carbon emissions by 2040s, phasing out fossil fuels, and attaining positive effects on biodiversity. The companies also have set goals to reduce their GHG emissions, there is not a steady downward trend in these emissions but the amounts keep fluctuating across all scopes in all companies. The same trend applies to water withdrawal and freshwater usage. Nevertheless, the companies have been extremely ambitious in waste management. All of them have achieved significant results in sending waste to recovery, showing improvement in diverting waste from disposal and contributing to circular economy and circular use of resources.

Moreover, it appears that the companies have established internal policies and bodies to control and manage the interactions with their stakeholders. They also invest in social projects to return back to the local communities they operate in. Additionally, they have adopted policies for diversity and inclusion within the workforce, safety of the employees, and engaging stakeholders by keeping an active communication with them by pinpointing their needs and expectations proactively.

The firms also all founded internal bodies that assist the Board of Directors with corporate governance and sustainability matters. The names may differ in each company, however, the responsibilities are nearly the same. These bodies are obligated to develop sustainability plans of the companies, monitoring the policies and procedures related to sustainable development and ESG data, ensuring that the company is complying with the regulatory requirements.

With the adoption of European Sustainability Reporting Standards (ESRS) in early 2024 the companies are required to conduct double materiality analyses since all the standards except cross-cutting standards are subject to materiality analysis. The companies developed a step-by-step plan for identifying priorities, stakeholders, and material topics to carry out these analyses. For the first time in its history, Ørsted carried out a double materiality analysis for the year 2023 in order to comply with ESRS.

Overall, the results appear to suggest that all three companies, Enel, Iberdrola, and Ørsted have attempted to integrate sustainability in their corporate strategies. These attempts are emphasised by managerial choices aimed at improving internal company structure, disclosure of material ESG data, compliance with regional and international regulatory frameworks, and keeping active communication with all the stakeholders. The fluctuations in the GHG emission outputs of the companies raise questions about whether they can achieve net zero emissions by the deadline they have set. However, since there is a time more than decade to achieve the established goals, therefore it is definitely possible. Sustainability is a goal but is also a tool that can be exploited by firms to improve their internal structure and of course, brand image while giving the firms a chance to repair the damage they do to nature.

These findings may have relevant practical implications since they remind companies of the importance of setting sustainability as one of their goals and working towards it by involving all of their employees, value chain, and stakeholders as it helps them to stay competitive in the industry. The companies that do not comply with the progressive laws fall behind in the competition. It also provides information about the importance of complying with the regulations and how this compliance contributes to the long-term existence of the companies. As the industry and law shift toward more clean energy practices, ESG integration also becomes required by law, eliminating the option of voluntary disclosure. The companies that do not comply with the progressive laws fall behind in the competition.

The study also has limitations that suggest the need for future research. The first limitation was that it was not possible to contact the firms to learn more about their sustainability practices and the study was mostly restricted to the information disclosed by the companies themselves. Future studies might focus on contacting the firms, interviewing the managers, or doing questionnaires among the employees and managers or even other stakeholders that participate in, for example, the identification process of material topics or sustainability programs or projects of the companies. Moreover, focusing solely on three companies in one industry may limit the scope of the thesis and overlook other relevant factors influencing ESG and compliance in corporate governance. Factors such as industry dynamics, regulatory environment, stakeholder pressure, and macroeconomic trends may vary across industries and could significantly impact corporate behaviour but might not be adequately addressed within the limited scope of the study. Consequently, in the future studies can be conducted in different sectors or in other countries to enlarge the perspective. Furthermore, ESG standards and regulatory requirements are continuously evolving, and corporate practices may change over time in response to these developments. The analysis may not capture the dynamic nature of ESG and compliance trends, potentially leading to outdated or incomplete conclusions, therefore there is always a need for new research.

Bibliography

Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on. *Journal of Financial Economics*.

Aguinis, H., & Glavas, A. (2012). What We Know and Don't Know About Corporate Social Responsibility: A Review and Research Agenda. *Journal of Management 38*.

Aluchna, M., Roszkowska-Menkes, M., & Kaminski, B. (2023). From talk to action: the effects of the non-financial reporting directive on ESG performance. *Meditari Accountancy Research, Vol. 31 No. 7*, 1-25.

Apicoltura Urbana Come Educazione All'ambiente e Inclusione Sociale. (2021). *WHAT IS URBAN BEEKEEPING?* Retrieved from https://www.reteapiurbane.it/en/things-stone-farming-urban/

Armstrong, K. (2024, March 16). *EU backs law against forced labour in supply chains* . Retrieved from BBC: https://www.bbc.com/news/world-europe-68583189

AVSI Foundation. (2024). Retrieved from https://www.avsi.org/en

Balkan Green Energy News. (2023, August 1). *EU aligns sustainability reporting with global standards, but slammed for 'watering down' requirements*. Retrieved from Balkan Green Energy News: https://balkangreenenergynews.com/eu-aligns-sustainability-reporting-with-global-standards-but-slammed-for-watering-down-requirements/

Baumüller, J., & Grebenic, S. (2021). Moving from non-financial to sustainability reporting: analyzing the EU Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD. *Facta Universitatis, Series: Economics and Organization*.

Bossut, M., Jürgens, I., Pioch, T., Schiemann, F., Spandel, T., & Tietmeyer, R. (2021). What information is relevant for sustainability reporting? The concept of materiality and the

EU Corporate Sustainability Reporting Directive. *Sustainable Finance Research Platform Policy Brief – 7/2021*.

Botwright, K., & Feingold, S. (2024, March 27). *EU governments back human rights and environmental due diligence law for supply chains*. Retrieved from World Economic Forum: https://www.weforum.org/agenda/2024/03/eu-human-rights-environment-due-diligence-supply-chains/

Camillieri, M. A. (2015). Environmental, social and governance disclosures in Europe. *Sustainability Accounting, Management and Policy Journal, Vol. 6 No. 2*, 224-242.

Corporate Justice Coalition. (2020). *ALLIANCE FOR CORPORATE TRANSPARENCY: 2019 RESEARCH REPORT.*

Council of the European Union. (2024). *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937 - Letter to the Chair of the JURI Committee of the European Parliament.*

Durakovic, A. (2022, June 27). *Ørsted and WWF Testing 3D-Printed Reefs at Danish Offshore Wind Farm*. Retrieved from https://www.offshorewind.biz/2022/06/27/orsted-and-wwf-testing-3d-printed-reefs-at-danish-offshore-wind-farm/

Enel . (2022). *Sustainability Report 2021.*

Enel. (2022). *L'impegno continuo di Enel X per la biodiversità*. Retrieved from https://corporate.enelx.com/it/stories/2021/05/Enel-X-ongoing-commitment-biodiversity

Enel. (2023). *Sustainability Report 2022.*

Enel. (2024). *Opening Up to the Future*. Retrieved from https://www.enelcuore.it/en/projects/articles/2024/01/opening-up-to-the-future

Enel. (2024). *Sustainability Report 2023.*

European Commission. (2008). *Transparency register*. Retrieved from https://commission.europa.eu/about-european-commission/service-standards-and-principles/transparency/transparency-register_en

European Commission. (2011). *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. A renewed EU strategy 2011-14 for Corporate Social Responsibility.*

European Commission. (2019). *Shareholder Rights Directive.* Retrieved from https://eur-lex.europa.eu/EN/legal-content/summary/shareholder-rights-directive.html

European Commission. (2020). *FREQUENTLY ASKED QUESTIONS about the work of the European Commission and the Technical Expert Group on Sustainable Finance on EU TAXONOMY & EU GREEN BOND STANDARD.*

European Commission. (2021). *COMMISSION STAFF WORKING DOCUMENT IMPACT ASSESSMENT Accompanying the document Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014.*

European Commission. (2021). *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS Pathway to a Healthy Planet for All EU Action Plan: 'Towards Zero Pollution for Air, Water and*

Soil'. Retrieved from https://environment.ec.europa.eu/strategy/zero-pollution-action-plan_en

European Commission. (2021). *European Climate Law*. Retrieved from European Commission: https://climate.ec.europa.eu/eu-action/european-climate-law_en#:~:text=The%20European%20Climate%20Law%20writes,2030%2C%20compared%20to%201990%20levels.

European Commission. (2022). *Corporate Sustainability Due Diligence.* Retrieved from https://commission.europa.eu/business-economy-euro/doing-business-eu/corporate-sustainability-due-diligence_en

European Commission. (2022). *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937.*

European Commission. (2023). Retrieved from https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/delivering-european-green-deal/fit-55-delivering-proposals_en

European Commission. (2023). *Energy Efficiency Directive*. Retrieved from https://energy.ec.europa.eu/topics/energy-efficiency/energy-efficiency-targets-directive-and-rules/energy-efficiency-directive_en

European Commission. (2023). *Questions and Answers on the Adoption of European Sustainability Reporting Standards*. Retrieved from https://ec.europa.eu/commission/presscorner/detail/en/qanda_23_4043

European Court of Auditors. (2021). *Special Report 22/2021. Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment.*

European Financial Reporting Advisory Group. (2022). *Public consultation on the first set of Draft ESRS*. Retrieved from EFRAG: https://www.efrag.org/lab3#subtitle6

European Parliament. (2014). DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. *Official Journal of the European Union*.

European Parliament. (2018). *Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (recast) (Text with EEA relevance.).* Retrieved from https://eur-lex.europa.eu/eli/dir/2018/2001/oj

European Parliament. (2018). *Report on Sustainable Finance.*

European Parliament. (2021, January 01). *Non-financial Reporting Directive*. Retrieved from European Parliament: https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2021)654213

European Parliament. (2022). Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014,Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. *Official Journal of the European Union*.

European Parliament. (2023). *Energy policy: general principles*. Retrieved from Fact Sheets on the European Union: https://www.europarl.europa.eu/factsheets/en/sheet/68/energy-policy-general-principles

Frangoul, A. (2022, October 4). *Energy giants return to fossil fuels like coal as Europe braces for winter*. Retrieved from CNBC: https://www.cnbc.com/2022/10/04/orsted-to-use-more-fossil-fuels-as-energy-crisis-continues.html

Global Reporting Initiative. (2020). *The GRI Standards A GUIDE FOR POLICY MAKERS.* Retrieved from GRI: https://www.globalreporting.org/about-gri/

Griffith, S. J. (2016). Corporate Governance in an Era of Compliance. *57 Wm. & Mary L. Rev.*, 2075.

Hallikas, J., Lintukangas, K., & Kähkönen, A.-K. (2020). The effects of sustainability practices on the performance of risk management and purchasing. *Journal of Cleaner Production, vol. 263.*

Iamandi, I.-E., Constantin, L.-G., Munteanu, S. M., & Cernat-Gruici, B. (2019). Mapping the ESG Behavior of European Companies. A Holistic Kohonen Approach. *Sustainability 11*.

Iberdrola. (2022). *Social projects to promote inclusion*. Retrieved from https://www.iberdrola.com/social-commitment/disadvantaged-groups/social-projects-and-awareness

Iberdrola. (2023). Retrieved from Saint-Brieuc: Iberdrola's first large-scale offshore wind power project in Brittany: https://www.iberdrola.com/about-us/what-we-do/offshore-wind-energy/saint-brieuc-offshore-wind-farm

Iberdrola. (2023). *Biodiversity protection in Iberdrola projects*. Retrieved from https://www.iberdrola.com/sustainability/biodiversity-protection

Iberdrola. (2023). *Corporate purpose and values*. Retrieved from https://www.iberdrola.com/about-us/corporate-purpose-values

Iberdrola. (2023). *Non-financial Information. Sustainability Report 2022.*

Iberdrola. (2023). *Non-financial Information. Sustainability Report 2023.*

Industrial Valve Summit. (2021). Retrieved from The “Green Electrification of Sardinia” project: https://industrialvalvesummit.com/news-2021-oilgas/the-green-electrification-of-sardinia-project/

Ingram, E. (2024, March 1). Retrieved from Iberdrola Spain obtains environmental permit for first hybrid hydroelectric and solar installation: https://www.hydroreview.com/hydro-industry-news/new-development/iberdrola-spain-obtains-environmental-permit-for-first-hybrid-hydroelectric-and-solar-installation/#gref

International Energy Agency. (2022). Retrieved from https://www.iea.org/topics/russias-war-on-ukraine

International Energy Agency. (2023). Retrieved from https://www.iea.org/energy-system/electricity/electrification

International Organisation for Standardisation. (2021). *ISO 14001:2015 Environmental management systems Requirements with guidance for use*. Retrieved from ISO: Global standards for trusted goods and services: https://www.iso.org/standard/60857.html

International Renewable Energy Agency. (2017). *Renewable Power: Sharply falling generation costs.*

Istituto Nazionale di Statistica. (2021). *ABSOLUTE POVERTY AND CONSUMPTION EXPENDITURE. PRELIMINARY ESTIMATES. YEAR 2021*. Retrieved from https://www.istat.it/en/archivio/269847

Maletič, M., Maletič, D., Dahlgaard, J. J., Dahlgaard-Park, S. M., & Gomiščček, B. (2016). Effect of sustainability-oriented innovation practices on the overall organisational performance: an empirical examination. *Total Quality Management & Business Excellence, 27:9-10*, 1171-1190.

Ørsted. (2020). *Ørsted's first Dutch offshore wind farm fully commissioned*. Retrieved from https://orsted.com/en/media/news/2020/11/448070886682487

Ørsted. (2021). *Ørsted becomes first energy company in the world with a science-based net-zero target*. Retrieved from https://orsted.com/en/who-we-are/sustainability/our-stories/orsted-becomes-first-energy-company-in-the-world-with-a-science-based-net-zero-target

Ørsted. (2022). *3D-printed reefs to help restore marine biodiversity in the Kattegat in Denmark*. Retrieved from https://orsted.com/en/media/news/2022/06/13654370

Ørsted. (2022). *Exploring how 3D-printed reefs can benefit biodiversity*. Retrieved from https://orsted.com/en/who-we-are/sustainability/nature/net-positive-biodiversity-impact/3d-printed-reefs-biodiversity-restoration#:~:text=Through%20our%20partnership%20with%20WWF,healthier%2C%20more%20resilient%20marine%20ecosystem.

Ørsted. (2022). *Ørsted Diversity and Inclusion Policy.*

Ørsted. (2022). *Ørsted Just Transition Policy.*

Ørsted. (2022). *Ørsted Water Management Policy.*

Ørsted. (2023). *Burning organic matter instead of coal for Danish heating and backup power*. Retrieved from https://orsted.com/en/what-we-do/renewable-energy-solutions/bioenergy

Ørsted. (2023). *ESG perfromance report 2022.*

Ørsted. (2023). *Sustainability Report 2022.*

Ørsted. (2024). *Annual Report 2023.*

Ørsted. (2024). *Ørsted in the Community*. Retrieved from Ørsted : https://orsted.ie/about-us/funding-for-community-projects

Rossi, M., Chouaibi, J., Chouaibi, S., Jilani, W., & Chouaibi, Y. (2021). Does a Board Characteristic Moderate the Relationship between CSR Practices and Financial Performance? Evidence from European ESG Firms. Journal of Risk and Financial Management. *Journal of Risk and Financial Management 14*.

Science Based Targets. (2021). *THE CORPORATE NET-ZERO STANDARD*. Retrieved from https://sciencebasedtargets.org/net-zero

Tarantino, A. (2008). *Governance, Risk, and Compliance Handbook.* Hoboken, New Jersey: John Wiley & Sons, Inc.

Task Force on Climate-related Financial Disclosures. (2017). *Task Force on Climate-related Financial Disclosures*. Retrieved from https://www.fsb-tcfd.org/about/

United Nations. (2015). *The Sustainable Development Agenda for 2030*. Retrieved from https://sdgs.un.org/2030agenda#:~:text=We%20resolve%2C%20between%20now%20and,protection%20of%20the%20planet%20and

United Nations. (2023). *The Sustainable Development Goals Progress Report for 2023.*

United Nations Environment Programme Finance Initiative. (2004). *Who Cares Wins Connecting Financial Markets to a Changing World.*

United Nations Global Compact. (2007). *EMBEDDING HUMAN RIGHTS INTO BUSINESS PRACTICE II.*

World Business Council for Sustainable Development; World Resources Institute. (2004). *The Greenhouse Gas Protocol A Corporate Accounting and Reporting Standard REVISED EDITION.*

Zainal, Z. (2007). Case study as a research method. *Jurnal Kemanusiaan, bil 9*.