

# The Integration of Environmental and Social Sustainability Dimensions into Corporate Governance in the Context of EU ESG Standards

Ivanka Bankova\*

**Abstract:** The constantly changing nature of people's daily lives and economic activities - amid rapid technological advancement and an unstable geopolitical and economic environment – calls for a new approach and requires the integration of new types of, in terms of type, quantity, and quality to sustain natural economic cycles and implement environmentally sound strategies and policies. Gradually, the challenges of a globalizing world are drawing attention to the specific characteristics of small and medium-sized enterprises (SMEs) operating in an open economy. These enterprises must have a long-term commitment to both their own sustainable development and the sustainability of the economy as a whole. There is a growing need to integrate environmental and social dimensions into their management, as these are increasingly becoming a strategic factor for the competitiveness of European enterprises, rather than merely an element of corporate social responsibility.

**Keywords:** Sustainable Development, Environmental and Social Dimensions, Corporate Governance, ESG Standards, Business Competitiveness

JEL: D20, M12, Q57

## I. INTRODUCTION

The choice of topic provides an opportunity to examine and analyze not only the EU regulatory framework but also the actual transformation of corporate governance under the influence of ESG standards, the CSRD (Corporate Sustainability Reporting Directive) and the ESRS (European Sustainability Reporting Standards), as well as the changes introduced by the Omnibus Package.

In 2025–2026, the focus is no longer solely on the need for companies to integrate sustainability, but on how to do so effectively in the context of a changing regulatory environment. There is no doubt that over the past decade, sustainability has gradually transformed from a voluntary corporate practice into a regulatory requirement of corporate governance.

The research problem is that many companies still view ESG as a reporting system rather than an element of strategic management.

This study argues that companies that integrate the environmental and social dimensions of sustainability into

their corporate governance systems in accordance with EU ESG standards achieve greater organizational resilience, more effective risk management, and greater long-term competitiveness, as ESG gradually evolves from a reporting tool into a strategic mechanism for creating corporate value.

The aim of this study is to analyze the role of corporate governance in integrating the environmental and social dimensions of sustainability into business operations within the context of the European ESG regulatory framework and to assess the extent of their practical application through empirical research.

The analysis in this study is based on summarized secondary data from the annual representative EIB Investment Survey 2025 (<https://www.eib.org/en/publications/20250216-econ-eibis-2025-eu>). The aim is to identify trends in the integration of environmental and social aspects of sustainability into the operations of European companies.

The current situation in Europe is characterized by low growth rates and pronounced regional disparities in indicators, processes, and phenomena across distinct territorial structures. Regional inequalities stem from differences in capacity bases and resource endowments, specific features of political and social development across states, varying levels of vulnerability, and different capacities for resilience in the face of spontaneous global and increasingly complex integration processes (Andonova, 2024, p.237). The EU seeks sustainable development by reducing socio-economic disparities between member states through cohesion between individual European regions. Under this policy, the basic principle of distribution is that resources are directed towards the poorest countries and regions (Velikova, 2024, p. 71)

## II. THE NEED TO IMPLEMENT THE EUROPEAN UNION'S ESG STANDARDS

Today, businesses in the European Union face the challenging task of meeting the expectations of citizens and institutions for active participation and contribution to achieving the climate goals set out in the Paris Agreement, the 2030 Agenda, and “Ready for 55.” These goals drive ESG efforts to reduce greenhouse gas emissions, transition to renewable energy, and implement sustainable practices. Emphasis is placed on the transition to a circular economy, waste reduction, and the promotion of resource efficiency,

---

\*Ivanka Bankova is a Assoc. Prof. Ph.D within the Varna Free University “Chernorizets Hrabar”, Varna, Bulgaria, <https://orcid.org/0009-0007-3302-2117>

which aligns with the environmental aspects of ESG related to sustainable procurement, waste reduction, and responsible consumption (ESG Reporting, 2024). It is important to note that, due to the changes introduced by Omnibus I (Directive (EU) 2026/470), the scope and deadlines for corporate sustainability reporting (CSRD) have been amended. Mandatory reporting currently applies to companies with more than 1,000 employees and an annual turnover exceeding €450 million, while EU companies with more than 250 employees or a turnover exceeding €40 million are currently exempt from direct sustainability reporting at this stage. Although they may not be directly within the scope of the CSRD, companies with more than 250 employees are often required by their major partners to provide data, as the new rules require reporting of information throughout the entire supply chain. Companies that are currently required to undergo mandatory independent assurance at the limited assurance level are expected to gradually transition to reasonable assurance in the future (Corporate Sustainability Reporting, 2026).

### **Key Features of the ESG (Environmental, Social, Governance) Concept**

The need to find an integrated approach to implementing appropriate measures to address global challenges led to the development of the ESG (Environmental, Social, Governance) concept. It is a system of indicators that reflect environmental, social, and governance policies when measuring the results that businesses report in the context of sustainable development. “The concept enables investors to quickly assess where a potential counterparty stands on the ESG criteria scale” (Staneva, 2022).

The ESG categories – Environmental, Social, and Governance, show how an organization manages its impact on the environment, people, and the way it makes decisions. In recent years, ESG has established itself as a key benchmark for businesses, investors, and regulators, providing a more realistic picture of an organization’s sustainability and long-term potential beyond its financial results (ESG Categories, 2024).

### **Funding Opportunities for Sustainability**

To achieve the Sustainable Development Goals and a climate-neutral economy, the EU is planning additional annual investments. As economic actors, companies are the focus of particular attention from public and private investors. Banks and investors are responsible for channeling “green finance” to businesses only when companies meet the required environmental standards. Companies would not be able to manage a large portion of non-financial risks or capitalize on opportunities for environmentally sound business in a rapidly evolving competitive environment.

The transition to a green economy requires a fundamentally new approach to doing business—driven both by market demands and by a regulatory framework of unprecedented scope and volume, which mandates the disclosure of extensive and multifaceted information. Although the legislature exempts small and medium-sized

enterprises from the scope of these regulations – both as part of value chains and when seeking financing – the regulatory requirements are becoming mandatory for them as well. The stakes in the event of failure are enormous, including the loss of markets and restricted access to financing, while their resources – financial, administrative, temporal, and human – are increasingly scarce, having been depleted by the multiple crises of recent years (Zhivkova, 2023).

### **Integrating Environmental and Social Sustainability into Corporate Management and Investment Decisions**

Companies implement policies to achieve environmental and social sustainability based on strategic analyses of the business environment, taking into account the financial aspects of these dynamics, as well as the company’s impact on the environment. It should be emphasized that it is necessary to monitor and manage changes in the environment, both in terms of pollution of the biosphere and the various manifestations of climate change. (Zhelyazkova, 2017). Of particular relevance in 2026 are social indicators, which are increasingly viewed as a factor in productivity and sustainability. Issues related to organizational sustainability, human capital, talent retention, diversity and inclusion, employee well-being, and stakeholder relations are also of paramount importance. More and more employees are choosing employers with a clear commitment to sustainability and social responsibility. Strong ESG performance helps organizations retain key professionals and attract new talent in the long term (ESG Categories, 2024).

The ESG wave has grown in conjunction with global momentum on combating climate change. While corporate related human rights risks have recently grabbed the attention of regulators and international organizations, there is a need for a comparable push behind governance risks.

Corporate integrity ought to be core to every aspect of the ESG agenda. Although directly measurable within the G, it is foundational to the realization of both the E and S. It is also essential to the ethical pursuit of ESG standards and the transparent and accurate reporting of ESG metrics (Why sustainable governance, 2022).

In the context of large organizations, ESG cannot be managed effectively through isolated processes and manual reporting. Digital transformation enables ESG data to be collected within a common framework, with clear logic, traceability, and control. When data is centralized and standardized, management teams can use it not only for reporting but also as a basis for risk assessment, planning, and making informed long-term decisions (ESG Categories, 2024).

### **The Role of Double Materiality**

Double materiality is one of the most frequently mentioned, yet least understood, concepts in the European Union’s new sustainability reporting framework. It forms the basis of the European sustainability reporting standards (CSRD, ESRS) and determines exactly what a company must disclose in its reports. With the introduction of Directive (EU) 2022/2464 (CSRD) and the adoption of the standards through Delegated Regulation (EU) 2023/2772,

the assessment of double materiality has evolved from a theoretical concept into a mandatory step in the preparation of corporate reports.

The concept of dual materiality combines two complementary perspectives that together define the scope of reporting:

- The traditional model – what matters to the company? What affects its financial results? i.e., impact materiality, the “inside-out” perspective: how the company’s activities affect people and the environment, regardless of whether that impact has a financial effect on the company itself, or

- The new model – how does the company affect society and the environment? And how do society and the environment affect the company? i.e., financial materiality, the “outside-in” perspective: how sustainability issues give rise to risks and opportunities that can affect the company’s financial position, performance, and development.

The key principle is that an issue is material if it meets at least one of the two criteria. An issue may be financially immaterial but remain material because of its impact on society or the environment—and vice versa. This is precisely what broadens the scope of disclosures beyond a narrow financial logic (Dual Materiality in ESG, 2026).

The scope of the new provisions is expanding and will affect companies and organizations not directly covered by the CSRD. The EU Taxonomy Regulation establishes criteria for determining whether a given economic activity is environmentally sustainable. It applies to financial market participants and large companies, imposing obligations to disclose information regarding the sustainability of their economic activities. This will affect every link in the value chain and/or production/supply chain, including companies not directly affected by EU regulations and directives (ESG Reporting, 2024).

### III. EMPIRICAL ASSESSMENT OF THE INTEGRATION OF ENVIRONMENTAL AND SOCIAL DIMENSIONS OF SUSTAINABILITY INTO CORPORATE GOVERNANCE BASED ON DATA FROM THE EIB INVESTMENT SURVEY 2025

EIBIS’s research and analyses examine not only ESG reporting but also the overall performance of European companies, including their investments, climate policies, human capital, innovations, and management decisions for the period 2020–2025. To address environmental and social dimensions, the empirical section of this report focuses on the following three main areas of the EIBIS study (EIBIS, 2025):

- Climate investment and climate risks;
- Skills, labor force, and human capital;
- Strategic business resilience and long-term investment decisions

Based on the empirical data from EIBIS 2025, an analytical framework has been developed to assess the integration of the environmental and social dimensions of sustainability into corporate governance, thereby justifying the transformation of ESG from a reporting tool into a strategic mechanism for corporate management.

TABLE 1.  
ANALYTICAL BLOCK – CLIMATE INVESTMENT  
AND CLIMATE RISKS (According to EIBIS data, 2025,  
adapted by the author)

| Indicator                                                                   | What It Measures                                                            | Relationship to ESG and Corporate Governance                 |
|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------|
| 1. Percentage of companies investing in measures to mitigate climate change | Investments in energy efficiency, renewable energy, and emissions reduction | Integrating Environmental Goals into the Investment Strategy |
| 2. Percentage of companies investing in climate change adaptation           | Protection of Production and Infrastructure                                 | Climate Risk Management                                      |
| 3. Businesses Exposed to Physical Climate Risks                             | Floods, Droughts, and Extreme Temperatures                                  | ESG Risk Management                                          |
| 4. Companies with decarbonization plans                                     | The Presence of Strategic Climate Goals                                     | Long-Term Strategic Management                               |
| 5. Investments in Green Innovations                                         | New Technologies and Sustainable Processes                                  | Green Transformation                                         |
| 6. Investments in Energy Efficiency                                         | Reducing Energy Consumption                                                 | Resource Efficiency                                          |

One of the most significant trends identified in EIBIS 2025 is the growing commitment of European companies to climate-related investments and the transition to a low-carbon economy. The data show that an increasing share of companies are making investments aimed at improving energy efficiency, reducing greenhouse gas emissions, and adapting to the impacts of climate change.

These indicators show that environmental investments are now part of strategic investment decisions, rather than merely a response to regulatory requirements.

Particularly telling is the fact that climate risk is no longer viewed as an external environmental problem, but as a significant business risk. An increasing number of companies are taking into account the potential impact of extreme weather events on production, logistics, supply chains, and financial results.

From a corporate governance perspective, this signifies a significant shift in management logic. The traditional model, based primarily on financial indicators, is gradually being replaced by a model in which climate risks are integrated into strategic planning, risk management, and investment policy.

TABLE 2.  
INDICATORS FOR CLIMATE INVESTMENT AND  
CLIMATE RISKS (According to EIBIS data, 2025,  
adapted by the author)

| Indicator                                                                  | Value<br>(EIBIS<br>2025)              | Analytical<br>significance                                                                                        |
|----------------------------------------------------------------------------|---------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Companies that invest in measures to reduce greenhouse gas emissions       | 92%                                   | It demonstrates a high degree of integration of environmental objectives into investment policy                   |
| Companies that view the transition to stricter climate standards as a risk | 36%                                   | Climate policies are already influencing strategic business management                                            |
| Companies that view the green transition as an opportunity                 | 27%                                   | Some companies already view ESG as a source of competitive advantage, rather than merely a regulatory requirement |
| Businesses that have taken steps to adapt to physical climate risks        | Upward trend (as reported by the EIB) | Demonstrates the integration of climate risk management into corporate strategy                                   |

TABLE 3.  
ANALYTICAL BLOCK – SKILLS, LABOUR  
FORCE AND HUMAN CAPITAL (According to EIBIS  
data, 2025, adapted by the author)

| Indicator                                                                | What It Measures                     | Relationship to ESG and Corporate Governance |
|--------------------------------------------------------------------------|--------------------------------------|----------------------------------------------|
| 1. Shortage of Skilled Labor                                             | Level of Difficulty in Finding Staff | Social Sustainability                        |
| 2. Investments in Education                                              | Competency Development               | Human Capital Management                     |
| 3. Investments in intangible assets (training, knowledge, software, R&D) | Development of Intellectual Capital  | ESG – Social                                 |
| 4. Organizational constraints due to a lack of skills                    | Impact on Investments                | Human Capital Management                     |
| 5. Digital Skills                                                        | Preparing for the Digital Transition | Sustainable Development                      |
| 6. Labor Productivity                                                    | The Effect of Human Capital          | Social Impact                                |

The results (Table 2) show that the environmental dimension of ESG is increasingly becoming an element of strategic management. Investments in climate resilience are not made solely for the purpose of regulatory compliance but are viewed as a means of reducing risk and strengthening the long-term competitiveness of companies.

The second set of indicators (Table 3) relates to human capital and the social sustainability of enterprises. Data from EIBIS 2025 consistently show that the shortage of skilled labor is becoming one of the most serious challenges to business development in the EU.

TABLE 4.  
INDICATORS FOR SKILLS, LABOUR FORCE  
AND HUMAN CAPITAL (According to EIBIS data, 2025,  
adapted by the author)

| Indicator                                                                          | Value<br>(EIBIS<br>2025) | Analytical<br>significance                                            |
|------------------------------------------------------------------------------------|--------------------------|-----------------------------------------------------------------------|
| Companies that identify a shortage of skilled workers as an obstacle to investment | 79%                      | Human capital is becoming a strategic factor for sustainability       |
| Companies that identify economic uncertainty as a major obstacle                   | 83%                      | The need for more sustainable strategic management                    |
| Investments in Intangible Assets (R&D, Innovation, Skills)                         | A Growing Trend          | It reflects a shift toward investments in knowledge and human capital |

The shortage of skilled labor is now one of the most serious constraints on investment activity. This underscores the growing importance of the social dimension of ESG. Increasing digitalization, the green transition, and technological changes are placing new demands on the knowledge and skills of the workforce. In response to these challenges, companies are increasing their investments in training, reskilling, and developing employee competencies.

Policies aimed at the following are becoming particularly important:

- human capital development;
- attracting and retaining talent;
- improving working conditions;
- increasing organizational engagement;
- promoting diversity and inclusion.

From an ESG perspective, the social dimension is undergoing a transformation from traditional social policy to a strategic management tool.

The results indicate that human capital is gradually establishing itself as a key factor in corporate sustainability. Social policies are no longer viewed merely as an element of corporate social responsibility, but as a strategic mechanism for enhancing productivity, innovation potential, and organizational resilience.

TABLE 5.

ANALYTICAL BLOCK – STRATEGIC BUSINESS RESILIENCE AND LONG-TERM INVESTMENT DECISIONS (According to EIBIS data, 2025, adapted by the author)

| Indicator                                                                    | What It Measures               | Relationship to ESG and Corporate Governance |
|------------------------------------------------------------------------------|--------------------------------|----------------------------------------------|
| 1. Percentage of Enterprises Making Investments                              | Total Investment Capacity      | Organizational Sustainability                |
| 2. Expectations for Future Investments                                       | Strategic Planning             | Long-term Governance                         |
| 3. Investments to replace or expand capacity                                 | Type of Investment Strategy    | Corporate Strategy                           |
| 4. Investments in Intangible Assets                                          | Innovation, R&D, Training      | Long-term value                              |
| 5. Diversification of Supply Chains                                          | Business Sustainability        | Risk Management                              |
| 6. Major barriers to investment (uncertainty, energy costs, labor shortages) | Strategic Constraints          | ESG Governance                               |
| 7. Use of Public Funding                                                     | Access to European Instruments | Green and Social Transformation              |

The third set of indicators carries significant weight in supporting the research hypothesis. EIBIS 2025 shows that European companies are increasingly adapting their investment decisions to long-term risks and opportunities. Amid economic uncertainty, climate challenges, geopolitical risks, and technological transformations, organizational resilience is becoming a top priority.

According to the findings, European companies (Table 6) are not scaling back their investments but are adapting their strategies through diversification, increased resilience, and long-term planning. The study shows that companies investing in innovation, digitalization, human capital, and climate resilience demonstrate a greater ability to adapt to a changing environment.

Of particular importance is that resilience is beginning to be viewed not as a reaction to crises, but as an element of strategic planning. This implies a longer-term investment horizon; the integration of ESG risks into management decisions; greater commitment from senior management; and a strengthened role for governing bodies in setting sustainability policies.

TABLE 6.

INDICATORS FOR STRATEGIC BUSINESS RESILIENCE AND LONG-TERM INVESTMENT DECISIONS (According to EIBIS data, 2025, adapted by the author)

| Indicator                                                                        | Value (EIBIS 2025) | Analytical significance                                                        |
|----------------------------------------------------------------------------------|--------------------|--------------------------------------------------------------------------------|
| Companies planning to invest next year                                           | <b>86%</b>         | Despite the uncertainty, businesses are maintaining their investment activity  |
| Companies that diversify the countries from which they import                    | <b>19%</b>         | Strengthening the Resilience of Supply Chains                                  |
| Companies that have reduced their imports                                        | <b>7%</b>          | Most companies prefer to adapt rather than withdraw from international markets |
| Enterprises that have received public support (grants or preferential financing) | <b>16%</b>         | Public policies support sustainable investments                                |

The data confirm that sustainability is gradually becoming a fundamental principle of corporate governance. Companies that integrate environmental and social factors into their investment decisions demonstrate greater organizational adaptability and are better prepared to manage future risks.

## CONCLUSION

Comparing these three sets of indicators allows us to draw a broader conclusion about the role of ESG in the development of modern corporate governance.

First, environmental factors are having an increasingly strong influence on investment policy and risk management.

Second, human capital is establishing itself as a strategic resource for organizational sustainability and competitiveness.

Third, companies are gradually shifting from a short-term to a long-term management model based on sustainability, adaptability, and value creation for a wide range of stakeholders.

Consequently, the findings of EIBIS 2025 support the research thesis that integrating the environmental and social dimensions of sustainability leads to a transformation of corporate governance from a model focused primarily on financial results to a model based on long-term sustainability, risk management, and the creation of social and economic value.

It can be summarized that in 2025 and 2026, ESG standards are already having a significant impact on corporate governance in the EU. Regardless of the regulatory relief and changes introduced through the Omnibus Package, sustainability remains a strategic priority for companies. The integration of the environmental and social dimensions of sustainability should not be viewed solely as a tool for regulatory compliance, but as a mechanism for enhancing organizational resilience, managing risk, attracting investment, and creating long-term competitive value. Empirical results show that companies that systematically implement ESG policies demonstrate a higher degree of adaptability to regulatory and market changes, confirming the importance of ESG as an integral part of modern corporate governance.

#### REFERENCES

- Andonova, K. (2024) Integrated Solutions to Contemporary Problems in Territorial Administration in Bulgaria. International Scientific Conference “Economic Transformations in a Global World“, 7 – 8.06.2024. VFU „Chernorizets Hrabar“. Varna pp. 236-244
- Corporate sustainability reporting (3.07.2026), Available online at [https://finance.ec.europa.eu/financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting\\_en](https://finance.ec.europa.eu/financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en) last checked 5.07.2026
- Directive (EU) 2026/470), Available online at <https://eur-lex.europa.eu/legal-content/bg/TXT/?uri=CELEX%3A32026L0470> last checked 09.06.2026
- The Dual Materiality in ESG Reporting: What It Means in Practice (19.06.2026), Available online at <https://zelenika.bg/dvoyna-sashtestvenost-esg/> last checked 12.06.2025.
- EIB Investment Survey (EIBIS) – Details, Available online at <https://www.eib.org/en/publications/20250216-econ-eibis-2025-eu> last checked 14.06.2026
- ESG Categories: Technology Supporting Responsible and Sustainable Business (2024), Available online at <https://esg-platform.com/esg-категории/> last checked 15.06.2026
- ESG Reporting for SMEs and Startups (2024), Available online at [https://cleantech.bg/wp-content/uploads/2024/04/ESG\\_Practical\\_Guide\\_BG.pdf](https://cleantech.bg/wp-content/uploads/2024/04/ESG_Practical_Guide_BG.pdf) last checked 14.06.2025
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020, Available online at <https://eur-lex.europa.eu/legal-content/BG/TXT/?uri=celex%3A32020R0852> last checked 13.06.2026
- Staneva, I. (2022) ESG strategies for sustainable development of Bulgarian business organizations, Available online at <https://dlib.uni-svishtov.bg/bitstream/handle/10610/4946/5d4bfd5e66d95250d7334fdf1ca4c207.pdf?sequence=1&isAllowed=y> last checked 05.06.2026
- Velikova, M. (2025) Municipal Self-Government and Regional Development. UI na VSU „Chernorizets Hrabar“, Varna
- Why sustainable governance and corporate integrity are crucial for ESG (29.07.2022) Available online at: <https://www.weforum.org/stories/2022/07/the-g-in-esg-3-ways-to-not-miss-it/> last checked 10.06.2025
- Zhelyazkova V. Contemporary problems of environmental accounting and accountability. Yearbook of UAARD, Volume V. 2017, Available online at <https://science.uard.bg/index.php/yearbook/issue/viewFile/25/22> last checked 08.06.2026
- Zhivkova, B. (2023) Effects of the green transition on small and medium-sized enterprises, Available online at <https://esgnews.bg/efekti-na-zeleniya-prehod-varhu-malkite-i-sredni-predpriyatiya/> last checked 07.06.2026