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RETHINKING THE S PILLAR OF ESG: CORPORATE SOCIAL RESPONSIBILITY IN A CORPORATE AND EU CONTEXT

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This study examines the role of corporate social responsibility (CSR) within the ESG (Environmental, Social, Governance) framework, with a special focus on the social (“S”) dimension and its regulatory context in the EU. The central question of the research is how the social aspect of the ESG approach can become an integral part of corporate strategy and what regulatory instruments are best suited for encouraging socially responsible operations in the EU. While the environmental dimension has seen more development to date, the social dimension is becoming more prominent, in particular through Directive 2014/95/EU and the CSRD. This study aims to explore the mechanisms through which CSR can be integrated into the day-to-day operations of companies and how these practices affect their market position and social acceptance. The study uses qualitative methods, applying legal and literature analysis, which highlights the importance of employee welfare, community relations and transparent reporting. The results suggest that the inclusion of social considerations in mandatory reporting is not only an ethical but also an economic imperative. Corporate social performance affects credit risk, investor decisions and social trust. The study will allow a deeper understanding of the relationship between CSR and the ESG framework and thus contribute to the promotion of a sustainable and inclusive economy.

KEYWORDS:

ESG, corporate social responsibility, corporate citizenship, social dimension, European Union, social dimension

INTRODUCTION

In recent years, a new, complex approach to evaluating the performance of companies has gained ground: the ESG framework, i.e. evaluation which takes into account environmental (Environmental), social (Social) and governance (Governance) perspectives. While the analysis of environmental and governance factors in business has made significant technical and regulatory progress, the social dimension remains underrepresented. Yet this is precisely the area that has the most direct impact on the internal functioning of companies, the wellbeing of their employees and their relations with local communities. This raises the question of why the ‘S’ component is lagging behind the other pillars, and how this may be changing in the light of the EU’s increasing regulatory activity.

The existing research shows that CSR tends to become a strategic tool in developed countries, while in developing regions it tends to be less visible. At the same time, concepts such as Corporate Social Responsibility (CSR) or corporate citizenship have evolved into integrated organisational strategies, especially within the ESG framework. The European Union has been a particularly active player in this transformation: regulatory instruments such as the Non-Financial Reporting Directive (hereinafter: NFRD) and the Corporate Sustainability Reporting Directive (hereinafter: CSRD) have made it mandatory to measure and disclose social impacts, thus encouraging social transparency and responsible corporate behaviour.

The focus of this study is on the EU framework governing the social pillar of the ESG: how are regulatory trends and business practices shaping the integration of social responsibility into corporate operations? The paper will explore how mandatory ESG reporting affects corporate social performance, and the role EU regulation plays in this.

The first part of the study describes the emergence and evolution of the concept of ESG, followed by an outline of the theoretical foundations of the social dimension and the EU regulatory environment. It then presents the relationship between ESG performance and the competitiveness of companies, the linkages between CSR and corporate citizenship and the ESG system, as well as the main CSR practices adopted by companies. The paper ends with a presentation and discussion of the empirical research findings before offering conclusions and recommendations to further strengthen the social dimension of ESG in corporate practice.

THE SOCIAL DIMENSION OF THE ESG AND ITS EU DIMENSION

ESG is no longer merely a slogan. It shapes corporate strategies, influences investment decisions and has a measurable impact on the global economy. It reflects the shared values of businesses, their customers and their communities. Meanwhile, many are adopting a comprehensive view of ESG that goes beyond environmental sustainability.

The “S” in ESG stands for the social or societal pillar. Recent research on CSR has highlighted how introducing regulations on climate change and environmental risk exposure in finance has fostered much greater development of the environmental dimension (the E of ESG)

than of the social dimension (the S of ESG).¹ It is also worth emphasising that initiatives to promote social responsibility are more typical of industrialised countries than of poorer or developing countries.

According to Matos, social factors should capture the relational dimension of the company with both internal stakeholders (employees) and external stakeholders (actors in the local community in which the company operates) and its impact on improving the multidimensional wellbeing of employees (quality of work, health and safety at work, training and development) and in terms of promoting local sustainable development.²

Some aspects of this approach have already been explained above, but it is also important to stress that this pillar must be integrated into the various strategies in the European Union, as in the 2018 European Pillar of Social Rights and its related action plan. The 2018 document is structured around three chapters, which are summarised under the headings 1. Equal opportunities and the right to work; 2. Fair working conditions; and 3. Social protection and inclusion.³ The latter document, the Action Plan, was adopted in 2021.⁴

The first definition of the social dimension in the EU's regulation appears in the EC Directive 95 of 2014 on non-financial reporting (NFRD),⁵ which stresses that equal attention should be paid to both the environmental and social dimensions. The Directive states that the social dimension should be considered both internally (as it affects employees) and externally (in the company's relations with the local community/consumers), while bearing in mind the human rights dimension, which primarily (but not only) concerns relations with suppliers. In addition, the non-financial reporting guidelines,⁶ which set out which issues from the social dimension should be included in non-financial reporting, are also emphasised. These include concrete information on respect for the core International Labour Organisation (ILO) conventions, discrimination and diversity issues, occupational issues and respect for employee participation, trade union relations, human capital value enhancement, occupational safety and health and the impact on consumers and the most vulnerable, research capacity and responsible markets, and finally, support for local community relations and local community development. In addition, of course, the directive prescribes respect for human rights, devoting a specific chapter to this in the directive and the guidelines, while human rights are also naturally fully included in the social dimension.⁷

The social dimension of the ESG, as one of the three pillars alongside environmental and governance factors, addresses labour rights, workforce diversity, community engagement and corporate practices related to the overall social impact of companies' policies and actions. In the European Union, this dimension is increasingly coming to the fore through both voluntary initiatives and mandatory requirements. Empirical research shows that the EU is an arena

¹ MATOS 2020.

² MATOS 2020.

³ TÓTH 2018.

⁴ European Commission 2021b.

⁵ Directive 2014/95/EU.

⁶ European Union 2017; BOROS et al. 2022.

⁷ BECCHETTI et al. 2022.

where CSR is being proactively incorporated into the ESG framework not only as an ethical commitment but also as a strategic business tool to influence investment and lending decisions.⁸

EU policies have played a key role in shaping how companies report and manage social issues. For example, NFRD and its subsequent versions, leading finally to the Corporate Sustainability Reporting Directive (CSRD) require large companies to disclose information on their social practices. These requirements oblige companies to provide qualitative and quantitative data on indicators such as freedom of association, child labour practices and measures to ensure diverse and inclusive workplaces.⁹ As a result, European financial institutions today often incorporate these social performance indicators into their risk and credit assessments, thus linking the quality of a company's social disclosure to its cost of debt and overall market valuation.¹⁰

Strict EU regulation aims to ensure that the social aspects of the ESG model are not merely voluntary add-ons, but constitute an essential element of corporate reporting. Mandatory reporting rules can be characterised as a qualitative tool that reinforces corporate social responsibility (CSR) by holding companies accountable for their labour practices and community contributions. The publication of the detailed social information obtained in this way aims to reduce information asymmetry between companies and stakeholders, which promotes greater transparency and stakeholder trust.¹¹ In many cases, these practices also lead to a convergence of social standards across CEE countries as companies seek to meet international and European benchmarks for social performance.¹²

Recent research also indicates that the EU regulatory framework is constantly evolving in response to changing societal expectations. Zhao notes that the EU has successively introduced several key regulations, including the NFRD and the CSRD, which together address issues that go beyond mere environmental impacts. These measures explicitly recognise that the social performance of companies contributes to the wider picture of sustainable development by ensuring that companies care for the wellbeing and livelihoods of their employees and affected communities. By setting standardised social criteria within ESG reports, the EU promotes sustainable consumption and production and helps to attract investment which is geared towards socially responsible practices.¹³

Taken together, the evolving EU regulatory environment and the strategic incorporation of social performance measures underline the dual role of the social dimension in the ESG approach: as both an ethical imperative and as a driver of corporate competitiveness. By requiring a high level of social disclosure, the EU encourages companies to internalise CSR as an integral part of their operational and strategic framework, with the ultimate aim of promoting a more inclusive and sustainable economy.¹⁴

⁸ MARKOWSKI et al. 2023; ZHAO 2024.

⁹ PIEŃKOWSKI-SKÝPALOVÁ 2024; OTTENSTEIN et al. 2021; LIPPAI-MAKRA et al. 2022.

¹⁰ MARKOWSKI et al. 2023; ZHAO 2024; TŐZSÉR et al. 2024.

¹¹ PIEŃKOWSKI-SKÝPALOVÁ 2024; OTTENSTEIN et al. 2021.

¹² MARKOWSKI et al. 2023; LIPPAI-MAKRA et al. 2022.

¹³ ZHAO 2024.

¹⁴ MARKOWSKI et al. 2023; PIEŃKOWSKI-SKÝPALOVÁ 2024; OTTENSTEIN et al. 2021.

Historical overview of the ESG milestones and regulations

The environmental, social and governance (ESG) framework has made significant strides and is now an essential part of investing and corporate accountability in Europe and beyond.¹⁵

The ESG approach can also be understood in the complex context of sustainability, focusing on three main areas: environment, social and governance. The environmental dimension includes, for example, energy and resource use, waste management, climate change and air pollution management. The social aspects, in contrast, involve the relationship between the company and its employees, working conditions, health and safety, and cooperation with suppliers, customers and communities. Corporate governance aspects cover issues such as executive pay, internal control systems, ensuring shareholder rights, gender equality and reducing corruption.¹⁶

Sustainability has become a central issue in recent years, after it was first introduced into international thinking in 1972 with the report *The Limits to Growth*, which highlighted the harmful consequences of accelerating population growth, excessive industrial development and environmental pollution and called for a change in attitudes. The next important step came in 1987 with the Brundtland report, known as *Our Common Future*. The central idea of the report, that development can only be sustainable if it ensures that meeting the needs of the present does not jeopardise the opportunities of future generations, still shapes the debate on the subject.¹⁷ As a result, corporate responsibility and ethical and environmentally responsible behaviour have become increasingly prominent.

Although the foundations of the ESG framework were already emerging in the 1990s, the term itself only became widely used in the early 2000s. A significant milestone was the 1992 UN Earth Summit, held in Rio de Janeiro, which elevated environmental issues to the global level.¹⁸ During the subsequent decade, a number of international initiatives were launched, including the Global Reporting Initiative (GRI), which provided guidelines for sustainability reporting.¹⁹

The concept of ESG was first officially introduced in 2004 in the UN publication *Who Cares Wins*, a report produced in collaboration with 18 financial institutions from nine countries. The aim was to develop practical recommendations to enable actors of the financial sector to integrate environmental, social and governance considerations more deeply into their practice. A year later, the UNEP's financial initiative, the Freshfields Report, further reinforced the importance of these considerations in financial decision-making.²⁰

¹⁵ LIU et al. 2024.

¹⁶ SZALAY 2021; DÚL et al. 2025.

¹⁷ FÁSI 2023.

¹⁸ United Nations 1992.

¹⁹ THOMPSON 2023.

²⁰ United Nations 2005.

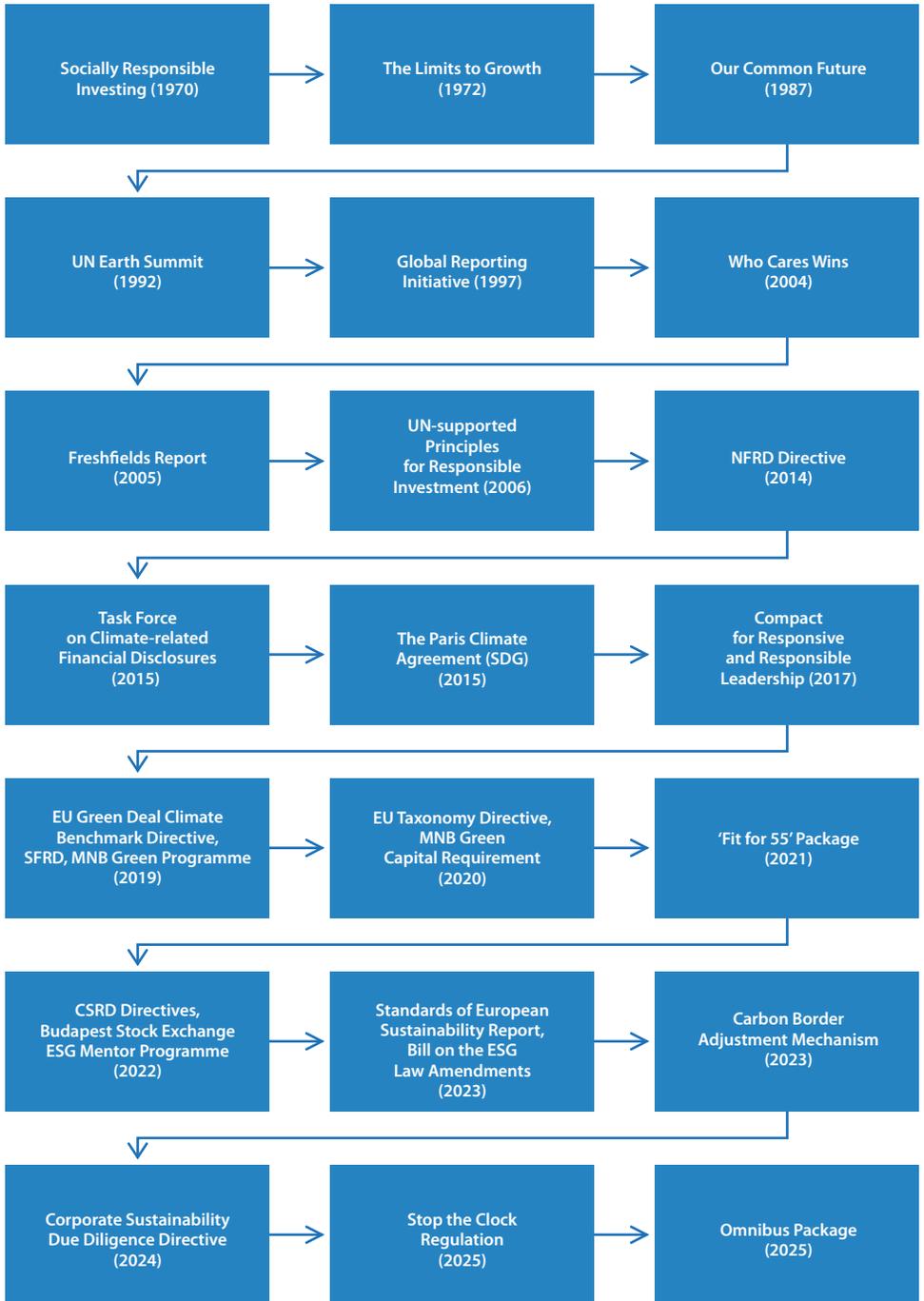


Figure 1: Milestones in the development of the ESG framework and regulations
 Source: compiled by the author based on data from SZENDREY-DOMBI 2024

The 2015 Paris Climate Agreement was a historic breakthrough, as all the countries of the world agreed to take joint action to combat climate change.²¹ Two years later, in 2017, at the World Economic Forum in Davos, nearly 140 business leaders signed the Compact for Responsive and Responsible Leadership, committing their firms to aligning their business goals with the UN Sustainable Development Goals. They recognised that promoting social wellbeing is in the long-term interests of business.²² In particular, the Covid-19 pandemic highlighted the importance of workers' rights and workplace safety. Employers have come under increasing pressure to take responsibility for the wellbeing of their workers and to ensure that they can work safely.

The European Union has developed an extremely ambitious set of laws with respect to environmental, social and governance (ESG) reporting and 2025 was a pivotal year for its general implementation. Laws that will link how companies will report on sustainability impacts, better manage ESG risks, and avoid being accused of merely cosmetic 'greenwashing' measures are being consolidated into a smaller number of major laws.

The key law is the Corporate Sustainability Reporting Directive²³ (CSRD), which replaces the former Non-Financial Reporting Directive. The significant difference is that the CSRD dramatically expands the number of commercial entities which are obliged to report on sustainability. Approximately 50,000 companies will report on this area, including large companies operating in the EU and some very large and medium-sized companies outside the EU but with significant operations in the EU, which will now have to submit audited sustainability reports as part of their annual filings. In order to ensure some comparability amongst reported sustainability impacts, the CSRD references the European Sustainability Reporting Standards (ESRS), which are guidelines developed by EFRAG to align EU rules and frameworks with other international frameworks.

In addition to the CSRD, the EU has enacted the Sustainable Finance Disclosure Regulation²⁴ (SFDR). The SFDR mainly applies to participants in the financial market, and its purpose is to establish a mandatory disclosure framework to guide fund managers and other investors on how to incorporate ESG risks into their investment decisions. This disclosure requirement is intended to enhance transparency in the ESG market and to minimise the opportunity for firms to make misleading claims regarding ESG and sustainability.

The new EU Corporate Sustainability Due Diligence Directive²⁵ (CSDDD) is another important piece of legislation, as it imposes a requirement on companies to determine and respond to human rights and environmental risks in the value chain. The Taxonomy Regulation²⁶ is also a significant development, as it establishes a common classification system

²¹ SZENDREY-DOMBI 2024.

²² World Economic Forum 2016.

²³ Directive (EU) 2022/2464.

²⁴ Regulation (EU) 2019/2088.

²⁵ Directive (EU) 2024/1760.

²⁶ Regulation (EU) 2020/852.

that defines sustainable economic activities. At the very least, companies cannot present misleading representations of being green.

As well as the above legislation, the EU is developing other policies to align economic activity with climate goals. The ‘Fit for 55’ package²⁷ establishes a framework for reducing greenhouse gas emissions by 55% by 2030. Meanwhile, the Carbon Border Adjustment Mechanism²⁸ (CBAM) addresses the economic disincentives faced by EU producers that incur carbon penalties, even though the products that they are importing are not subject to them. The new EU CBAM thus means that carbon costs cannot be offshored to gain a price advantage based on foreign laws.

The EU will also rely more heavily on policies from the European Banking Authority, which means that banks need to identify and manage ESG risks, regardless of materiality, by no later than mid-2025. At the same time, the EU appears to be willing to penalise companies for misleading claims regarding sustainability, meaning that companies will be scrutinised. In late 2024, EU leaders also initiated an ‘omnibus regulation’ to try to rationalise some of the requirements, specifically the CSRD, the Taxonomy Regulation and the CSDDD to issue more integrated reports.

Overall, what is happening in the EU, when considered as a whole, is leading to a situation where sustainability reporting will not be a voluntary exercise; it is now a legal obligation with standards, enforcement, and material consequences. For any companies operating in or with the EU, 2025 will be the year that ESG reporting will become just another event in the business year, an integrated report that reflects the companies’ strategy, risk management and information for stakeholders.

The concept of corporate social responsibility

Corporate Social Responsibility (CSR), broadly defined, is a voluntary commitment by companies to generate positive social and environmental impacts that go beyond making a profit or complying with legal requirements.²⁹ Over the past few decades, CSR has evolved from isolated philanthropic gestures to an integrated strategic framework that encompasses environmental stewardship, social engagement, ethical governance and community development.³⁰ This transformation reflects the growing recognition among academics and practitioners alike that sound CSR practices create lasting value for both companies and stakeholders.

Empirical research shows that CSR plays a multifaceted role in enhancing corporate performance and gaining a competitive advantage. In particular, studies have shown that companies with well-developed CSR programmes tend to enjoy stronger brand loyalty,

²⁷ European Commission 2021a.

²⁸ Regulation (EU) 2023/956.

²⁹ LEE–RHEE 2023.

³⁰ BURBANO et al. 2023; KATSAMAKAS – SÁNCHEZ-CARTAS 2023.

improved reputation and greater resilience to risk, even in times of crisis.³¹ Research in the tourism sector, for example, shows that proactive CSR initiatives can mitigate the adverse effects of negative social media events, thereby stabilising corporate reputations in turbulent times.³² Similarly, integrating CSR into corporate strategy is associated with improved consumer brand choice, as companies that demonstrate strong ESG practices tend to enjoy higher levels of consumer trust and experience long-term profitability.³³

In recent years, considerable attention has been paid to the internal mechanisms through which CSR becomes embedded in corporate culture. Board composition and leadership characteristics have been identified as critical determinants of CSR effectiveness; for example, evidence indicates that companies with greater board diversity, including a higher proportion of female board members, have more comprehensive CSR disclosure, reflecting increased attention to social issues.³⁴ In parallel, the emergence of digital technologies and advanced management control systems has enabled companies to better integrate CSR into their day-to-day operations and strategic decision-making.³⁵ These systems facilitate the collection, monitoring and dissemination of non-financial performance data, thereby reducing the information asymmetry between companies and stakeholders – a key challenge in the CSR landscape.

CSR implementation varies significantly across regions and cultures. In some contexts, CSR initiatives often harmonise with local cultural values, such as community solidarity and family ethics, which enrich the way in which companies interpret and implement socially responsible practices.³⁶ Furthermore, within the financial services sector, CSR disclosure is associated with improved transparency and stakeholder confidence, as recent studies of environmental and social disclosures by banks within the Euro area have shown.³⁷ These regional adaptations underline that CSR is not a one-size-fits-all approach, but rather a dynamic construct that needs to be adapted to the specific socio-cultural and regulatory context in which companies operate.

The impact of ESG performance on the competitiveness of companies

ESG performance affects companies' competitiveness through various mechanisms.³⁸ With healthy ESG activities, firms may improve their operational efficiency, enhance brand value, be better positioned to manage risk, have greater access to capital and enjoy enhanced flexibility in financial matters.³⁹ However, a number of studies have revealed that this relationship is

³¹ LEE–RHEE 2023; CHERKASOVA et al. 2023.

³² WUT et al. 2023.

³³ LEE–RHEE 2023.

³⁴ GUROL–LAGASIO 2023.

³⁵ CAHYONO 2023.

³⁶ HERMAWAN–HANDOYO 2025.

³⁷ GAMBACORTA et al. 2023.

³⁸ WANG 2025.

³⁹ Ni et al. 2024.

complex, with contradictions or nuances depending on firm size, industry characteristics, and external conditions.⁴⁰

One of the key benefits that can be derived from ESG performance is operational efficiency. By employing sustainable practices – waste reduction, better resource conservation, lower costs – firms can create lasting performance improvements.⁴¹ For example, organisations like the Hisense Group have begun extensively investing in energy-saving technology and reducing their carbon emissions, which has led to performance efficiencies and cost savings while improving productivity. Companies that have introduced cleaner technologies (e.g. sonochemical mordanting in textile dyeing), which are also ESG-driven innovations, have even managed to streamline their processes for dyeing fabrics.⁴² In addition to various operational efficiencies, strong ESG practices enhance corporate reputation and brand value, which helps to build the trust and loyalty of customers, employees and investors, more of whom are considering environmental and social responsibility when making decisions.⁴³ Moreover, positive media coverage of firms that are considered ESG-friendly may even establish or reinforce a firm's positive reputation on the market.⁴⁴

ESG is very much linked to risk and risk management. Companies may mitigate the risks of operational breakdowns, reputational issues and financial malpractice by being proactive in preventing detrimental environmental outcomes, socially irresponsible and unethical behaviour and governance orchestrated crime.⁴⁵ In addition, firms with positive ESG marks enjoy better access to capital as some investors in the financial markets are incorporating ESG into their investment decisions.⁴⁶ Green finance policies reinforce this behaviour by incentivising financial institutions to support more sustainable firms through offering tangible financial benefits, often in the form of a lower cost of debt.⁴⁷

Moreover, ESG performance fosters innovation and technological collaboration enhancing competitiveness by developing sustainable products and processes.⁴⁸ Firms that engage in ESG activities more often than firms that do not prioritise them invest more in R&D and collaborate with partners to accelerate green innovation.⁴⁹ Stakeholder relationships also benefit, as meeting investor, customer and local community expectations can develop a sense of ownership and reinforce the company's social license to operate.⁵⁰

Nonetheless, the relationship between ESG and competitiveness can be controversial. Some firms that engage in ESG activities do so for image management purposes, and do not commit

⁴⁰ WANG-ZHU 2024.

⁴¹ PENG 2025.

⁴² ZHANG et al. 2022.

⁴³ LIN 2024.

⁴⁴ ZHANG-LAI 2024.

⁴⁵ LIU-JIN 2023.

⁴⁶ ZHANG-ZHANG 2024.

⁴⁷ LI et al. 2024.

⁴⁸ QIAN 2024.

⁴⁹ TOJEIRO-RIVERO – MORENO 2019.

⁵⁰ ZHANG-LAI 2024.

to substantive change, which creates a ‘window-dressing effect’.⁵¹ Moreover, the impact of ESG measures is context-sensitive, where firm size, financing conveniences, geographic location and industrial sensitivity to ESG are all factors that contribute to whether a firm is impacted.⁵² The implementation of an ESG framework can come with added costs and trade-offs, especially in resource-intensive or sensitive industries.

The role of investors is also highly relevant here, as more exposure to the market means that companies must adopt higher ESG standards, reinforcing trust in investors⁵³ – which is impactful in companies with greater market presence. Similarly, good ESG leads to better financial leverage, enabling firms to address external disturbances and adopt long-term sustainable approaches.⁵⁴

Disclosure is also important for adopting an ESG framework. Transparent reporting processes and the provision of information describing environmental and social strategies enhances accountability, as it illustrates a firm’s commitment to sustainability and demonstrates transformations relating to economic, environmental, and social strategies.⁵⁵ Firms’ governance and their ownership structures also have an impact on ESG, for example in the case of State-Owned Enterprises (SOEs). Market-driven structural reforms affording more accountability than past ownership along with open markets encourage market-oriented perspectives to enhance stakeholders’ views of resource allocation and ESG levels.⁵⁶ This can also be driven by leadership styles and experiences, as most notably the experiences of CEOs with sustainability agendas, formal training, and with previous political engagements tend to yield higher ESG outcomes for companies.⁵⁷

Similarly, when firms use strategic approaches to leverage ESG through planning, for instance, this involves reinforcing sustainability and related philosophies through the company’s planning processes and associating sustainability principles with all levels and objectives of the organisation, while frameworks like the Balanced Scorecard (BSC) create a concerted approach to sustainable planning.⁵⁸ Additionally, strategic enhancements of ESG performance for firms in more volatile industries, such as energy, can ultimately enable firms to mitigate the risks associated with the volatility of the crude oil market, especially when also accounting for improved performance resulting from peer effects in their markets.⁵⁹

⁵¹ WANYAN-ZHAO 2024.

⁵² NAEEM et al. 2022.

⁵³ LU et al. 2025.

⁵⁴ FANG et al. 2025.

⁵⁵ ALSAYEGH et al. 2020.

⁵⁶ LIU et al. 2023.

⁵⁷ SANG et al. 2024.

⁵⁸ MICHALSKI 2024.

⁵⁹ ZHANG et al. 2024.

The concept of corporate citizenship

Corporate citizenship⁶⁰ is broadly defined as a company's commitment to operating in a way that has a positive impact on society and the environment, going beyond minimal legal compliance to include the active adoption of ethical, social and sustainable practices. This concept is often used interchangeably with CSR, but is distinguished by its focus on strategically integrating social values into internal operations and external stakeholder relationships.⁶¹ In essence, corporate citizenship involves a company's efforts to balance its economic, legal, ethical and discretionary responsibilities while maintaining beneficial relationships with its employees, communities and other stakeholders.⁶²

Corporate citizenship has evolved from traditional *ad hoc* philanthropic activities to a comprehensive framework that integrates sustainability measures across the organisation. For example, the internal dissemination of sustainability initiatives has been shown to improve employees' perceptions of corporate citizenship, thereby strengthening internal culture and enhancing the external reputation of the company.⁶³ This internal engagement is often influenced by the personal characteristics of entrepreneurs and business leaders. Studies have demonstrated that the social identity of entrepreneurs can significantly shape corporate citizenship practices, thus linking personal identity with wider CSR initiatives.⁶⁴ Such a perspective underscores the idea that corporate citizenship is not a mere afterthought, but forms an integral part of a company's strategic identity.

Despite its widespread acceptance, several obstacles remain on the road to the effective measurement and implementation of corporate citizenship. Several scholars have argued that, although corporate citizenship, CSR and corporate social performance are often used interchangeably, operationalising these constructs remains complex.⁶⁵ For example, a comprehensive literature review using text mining revealed considerable heterogeneity in the characterisation of corporate citizenship, which underlines the need for clear definitions and standardised metrics for academic research and practical evaluation.⁶⁶ Furthermore, research comparing customer citizenship with corporate citizenship has emphasised the need for a comprehensive understanding of stakeholder expectations, since behaviours indicative of responsible corporate action have a direct impact on brand image and competitive performance.⁶⁷

From a strategic point of view, strong corporate citizenship behaviour can bring significant competitive advantages. Companies that actively disseminate sustainability knowledge both

⁶⁰ It represents a company's responsibility towards societies. The primary goals are definitely to maximise and improve the quality of life.

⁶¹ SHUKLA et al. 2021; PARK et al. 2023.

⁶² KASRADZE et al. 2023; CHEN et al. 2021.

⁶³ CALDANA et al. 2021.

⁶⁴ CHEN et al. 2021.

⁶⁵ SHUKLA et al. 2021.

⁶⁶ PARK et al. 2023.

⁶⁷ CHEN et al. 2022.

internally and externally tend to experience better employee engagement, increased brand loyalty and stronger local community ties.⁶⁸ Furthermore, perceived corporate citizenship positively influences customer brand loyalty, which in turn translates into improved corporate reputation and long-term financial performance.⁶⁹ Thus, when corporate citizenship is effectively institutionalised, it serves as a multi-level mechanism that promotes both ethical accountability and business success.

Practices adopted by companies to promote corporate responsibility

A few decades ago, if they were asked what corporate responsibility meant, most people would have associated it with products, warranties and guarantees. Several concepts have sought to define the role and responsibility of companies, the most widely known and used of which is CSR:

“The responsibility of an organisation for the impact of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including the health and wellbeing of society. It considers the expectations of stakeholders, complies with applicable laws, is consistent with international standards of conduct, and is embedded throughout the organisation and its relationships.”⁷⁰

Table 1: Levels of socially responsible HR practices

Individual level
<ul style="list-style-type: none"> • Focus on the physical and mental wellbeing of workers • Fair career opportunities and a learning-centred organisational culture design • Conscious and long-term support for employees’ careers
Organisational level
<ul style="list-style-type: none"> • Organisation development with stakeholder involvement and strengthening of leadership engagement • Build partnerships with business actors to promote responsible operations • Active participation in society, for example through voluntary programmes
Institutional level
<ul style="list-style-type: none"> • System-wide embedding of core values into operation • Respect for human rights and diversity • Ensure employee participation in decision-making processes, and promote transparency

Source: compiled by the author

⁶⁸ BRAVO et al. 2021.
⁶⁹ HU et al. 2023.
⁷⁰ FARKAS 2013.

Table 2: Differences between the organisational and institutional level

Test aspect/Level	Organisational level	Institutional level
Level of impact	Individual company	Industry, national or global level
Factors	Corporate culture, leadership, CSR objectives	Laws, social norms, regulatory frameworks
Character	Voluntary, tailored	Often mandatory or generally expected
Examples	Internal welfare programmes, DEI (equal opportunities) initiatives	Labour laws, ILO conventions, industry codes
Stakeholders	Employees, management, shareholders	Governments, NGOs, trade unions

Source: compiled by the author

Corporate Social Responsibility (CSR) is a central element of modern business thinking that emphasises the importance of ethical behaviour, social responsibility and sustainable development. Companies can adopt a variety of approaches to contribute to society in a responsible way – strategies that not only benefit the community but can also help strengthen a company’s market position and improve its economic performance.

Promotion of health in the workplace is an area that is closely intertwined with CSR, as this relationship creates a positive interaction that requires committed leadership and clearly defined objectives within sustainability strategies.⁷¹ CSR initiatives that target local communities are effective in supporting corporate efficiency gains, as employees are often willing to commit to an organisation that represents real values in return for less financial gain.⁷² Socially conscious business practices have long-term benefits, contributing not only to the wellbeing of employees, but also to the development of the economy and the quality of life of the community. In recent years, there has been a surge of interest in researching the relationship between CSR and human resource management (HRM), with a particular focus on areas such as green management, stakeholder relations, employee engagement, building a competitive advantage, employee satisfaction, performance enhancement, sustainability and improving research methods. To ensure socially responsible operations, it is essential that companies integrate CSR and HRM within a sustainable business model.⁷³

All this suggests that companies can become truly socially responsible if they focus their activities not only on material growth, but also on working together with people, local communities, consumers and business partners.⁷⁴

⁷¹ ALONSO-NUEZ et al. 2022.

⁷² NEWMAN et al. 2020.

⁷³ HERRERA – HERAS-ROSAS 2020.

⁷⁴ ALEKSIĆ et al. 2020.

The CSR ethos can be achieved, for example, by integrating workplace health programmes and community-focused initiatives, aligning CSR and HR strategies, and consciously improving environmental performance. Strategic planning and the systematic use of credible ESG indicators are essential for the successful implementation of CSR and can become the cornerstones of sustainable business operations in the long term.

DISCUSSING THE RESULTS

This study has highlighted the growing importance of the social ('S') dimension within the ESG (Environmental, Social, Governance) framework, particularly in the European Union. The research has shown that while significant progress has already been made with regard to its environmental aspects, social aspects such as employee wellbeing, safety at work, support for local communities and respect for human rights are gradually being integrated into corporate strategies and reporting obligations.

The results show that the social dimension of the ESG is not only an ethical obligation, but also a strategic tool to enhance corporate competitiveness. Corporate Social Responsibility and citizenship are becoming increasingly institutionalised and implemented through systems that cover the whole organisation. Non-financial reporting obligations strengthen transparency and build trust among stakeholders.

Integrating corporate social responsibility into the ESG framework contributes to a more sustainable, inclusive and ethical business environment. Well-functioning CSR practices have a positive impact on brand equity, consumer trust and employee engagement, thereby enhancing companies' economic performance in the long term. At the same time, the EU's regulatory efforts provide an incentive to promote socially responsible behaviour.

The study has mainly examined the development of the social dimension in the EU context, so the results are of limited applicability to other geographical regions, especially to developing countries. Furthermore, although the study presents several qualitative examples, the quantitative analysis is limited, so the empirical evidence needs to be investigated further.

For future research, it is recommended to refine the quantitative measurement of the social dimension and to conduct comparative analyses with regions outside the EU.⁷⁵ In addition, it would be worthwhile mapping the impact of CSR and ESG at the level of specific industries and to investigate the links between CSR and corporate financial performance. It would also be useful to explore the long-term effects of ESG measures through longitudinal studies.

⁷⁵ GAÁL-NAGY 2025.

Table 3: ESG performance scores of leading technology firms and automotive companies across major rating agencies

Company	Region	MSCI ⁷⁶	(LSEG) Refinitiv ⁷⁷	Sustainalytics ⁷⁸	ISS ESG ⁷⁹	S&P Global ⁸⁰
Apple Inc.	United States of America	BBB (Average)	71	18.9 (Low Risk)	B	36
Microsoft Corp.	United States of America	AA (Leader)	87	16.9 (Low Risk)	B	50
Alphabet Inc. (Google)	United States of America	BBB (Average)	81	25.5 (Medium Risk)	B-	42
General Motors Co.	United States of America	BBB (Average)	72	27.6 (Medium Risk)	C+	47
Volkswagen AG	Germany	B (Laggard)	84	29.5 (Medium Risk)	C+	47
Toyota Motor Corp.	Japan	BBB (Average)	79	28.2 (Medium Risk)	C	48

Source: compiled by the author based on data from the rating agencies

CONCLUSION

The central question this study addressed concerned why the development of the social dimension has lagged behind the environmental dimension in the ESG (Environmental, Social and Governance) framework and how the European Union is trying to promote the institutionalisation of CSR in the corporate sector through regulatory and strategic instruments.

The study shows that, although the ESG concept is based on three equal pillars, in practice the ‘S’ component – the social dimension – is often overshadowed in corporate practices and regulations. To address this, EU legislation, such as the non-financial reporting directives (NFRD, CSRD), aims to strengthen the social dimension by requiring large companies to disclose detailed and measurable data on employee wellbeing, human rights, community engagement and equal opportunities. The social dimension is thus not only an ethical obligation, but also a factor influencing competitiveness.

⁷⁶ Availability of ratings: <https://knowesg.com/esg-ratings?q=§or=>

⁷⁷ Availability of ratings: <https://www.lseg.com/en/data-analytics/sustainable-finance/esg-scores>

⁷⁸ Availability of ratings: <https://www.sustainalytics.com/esg-ratings>

⁷⁹ Availability of ratings: <https://www.issgovernance.com/sustainability/sustainability-gateway/>

⁸⁰ Availability of ratings: <https://bit.ly/4qVD6Kl>

The main lesson of the study is that corporate social responsibility (CSR) and corporate citizenship are not only of moral but also of strategic importance. Firms can gain a competitive advantage by integrating CSR into their business model, especially when transparency, employee wellbeing, support for local communities and a commitment to diversity are also included. However, the success of CSR practices was also shown to be dependent on the corporate culture, the composition of the management and the local social and legal environment. The study also underlines that the integration of CSR and human resource management (HRM) is essential to ensure socially responsible operations.

Table 4: Putting the proposals into practice

Action level	Objective	Concrete actions
Strategic level – Management	Integration of CSR into corporate strategy	CSR – policies; ESG reporting
Operational level – HR and organisational operations	Developing socially responsible operations	Health programmes; CSR–HRM integration
Community level – Social relations	Community and stakeholder engagement	Community projects; responsible partnership
Monitoring and evaluation	Measurement and development of social impact	Development of performance indicators; feedback; international standards

Source: compiled by the author

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EU related legislation

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
- Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism
- 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
- 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
- Directive (EU) 2024/1760 of the European Parliament and of the Council of 13 June 2024 on corporate sustainability due diligence and amending Directive (EU) 2019/1937 and Regulation (EU) 2023/285
- Directive (EU) 2025/794 of the European Parliament and of the Council of 14 April 2025 amending Directives (EU) 2022/2464 and (EU) 2024/1760 as regards the dates from which Member States are to apply certain corporate sustainability reporting and due diligence requirements
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