The Imperatives of Corporate Governance

Anna Karmańska

(https://orcid.org/0000-0002-8770-4611)

Abstract

Purpose: The aim of the following text is essentially to highlight: The purpose of the text presented below is essentially to emphasise: (1) the developments and direction of the evolution of corporate governance principles as a guideline for the introduction of the global order in this area, (2) the importance of corporate governance for the sustainable development of economic operators, and (3) the related reporting standard which, as a conceptual framework for the presentation of corporate governance reporting information of economic organisations across the European Union, constitutes an important element of their policies.

Methodology/research approach: The presentation is based on the analysis of the official announcements and guidelines posted on the OECD website (and other cited institutions), which are collectively used here to provide a picture of the corporate governance framework/principles in global terms, followed by a confrontation with the legal regulation outlining the standard of corporate governance reporting in the European Union space.

Results: This text indicates the need to verify the operation of corporate governance in practice, simultaneously at two levels: macroeconomic and microeconomic. It identifies the sustainable development imperative as a key premise. It presents six directional recommendations for improving organisational practice and corporate governance reporting from a microeconomic perspective.

Research limitations/implications: Due to the pace of change in global corporate governance guidelines, on the one hand, and EU law relating to sustainability reporting, on the other, this text focuses on the need to recognise the current shape of principles and rules occurring on both levels. This is because it will only be possible to study their impact on various areas of business organisations and carry out

ISSN 2957-1839

www.pana.gov.pl

different comparative (and other) analyses in the future (from 2025 onwards), as they are implemented in practice.

Originality/value: The value of this study can be identified in the structuring of knowledge in the title area, in the presentation – through a historical outline – of the global (OECD) approach and the institutional environment relevant to the formulation of the corporate governance framework. Its usefulness is supported by the provision of recommendations that can be considered as a guideline in reviewing – at the level of the business organisation – current practices in this area.

Keywords: corporate governance, OECD, reporting, sustainable development, epidemic, Covid-19, ESG

Introduction

Corporate governance[1] is a concept that is often invoked in various contexts, but is just as often understood in different ways or not at all. Meanwhile, 'corporate governance' is of importance for several reasons, among many, first and foremost, for the security of economic transactions (in the sense of transparency and reliability of information on the activities of business entities, important in the decisions of various stakeholder groups) and institutional stability (in the sense of the functioning of corporate bodies, ensuring the ability to achieve corporate goals). In the latter case, corporate governance is to 'pin down' various interests and goals of those involved in the functioning of a company in such a way as to ensure that its operations are consistent and focused on its long-term goals.

Owing to various crisis-triggered global events, corporate governance is now in the spotlight. Forms of leadership, both in private business organisations and in public institutions, have become an object of attention for researchers inquiring into relationships between various attributes of business activity and corporate governance. The focus was not only on internal control systems and risk management. There has also been a turn toward regulatory authorities which have focused on increasing disclosure requirements related to corporate governance.

[1] In Polish literature, it is difficult to find a widely accepted translation of the term corporate governance, as well as an interpretation of the meaning thereof. The most common translations include: kontrola w korporacji [corporate control]; ład korporacyjny [corporate governance]; nadzór właścicielski [corporate governance]; nadzór korporacyjny [corporate supervision]; władztwo korporacyjne [corporate authority]. (Herdan, Stuss, Krasodomska, 2009, 13).

The focus on the foregoing is justified by the already widespread orientation (sensitivity) to issues of sustainable development of various stakeholder groups of the activities of business organisations, which go beyond the economic field in their idea and require that economic, social and environmental goals are harmonised.

Corporate governance includes mandatory laws and regulations forming part of legal acts (e.g., the Commercial Companies Code, Banking Law, industry regulations, etc.) and recommendations of a voluntary nature. 'The concept of *corporate governance* was introduced to economics by A. Smith, who in his 1776 work entitled *The Wealth of Nations*, was the first to draw attention to the separation of ownership and control function in corporations at the time. "The concept was introduced into modern economic theory in the first half of the 1930s by A. Berle and G. Means. They analysed the functioning of American corporations, and in particular, relationships between ownership, corporate governance, and business performance" (Herdan, Stuss, Krasodomska, 2009, 14–15).

A review of the *corporate governance* definitions by Mirela Oana and Melinda Timea (Oana, Timea, 2015, 9–14) and Agnieszka Herdan et al. (Herdan, Stuss, Krasodomska, 2009, 13) made it possible to conclude that all of them are based, more or less, on specific assumptions as to its essence, and that they depend both on the areas of science in which their authors function, and on the cultural, national conditions of the organisation's business activities in the countries from which researchers with a significant influence on the way of studying and describing the 'phenomenon' of corporate governance originate.

Corporate governance is the subject of scientific research in various aspects and contexts, and is being treated with an increasing intensity in different parts of the globe, which in addition points to the importance of the problem. At this point, only a few are cited here to illustrate the current research trends. And, thus, for example: Farooq et al. (2015) pointed out that determinants of good corporate governance practices and a relationship between corporate governance and company performance are frequent objects of academic research. They indicate that a relationship between corporate governance and corporate social responsibility remains unrecognised, but companies with strong internal corporate governance are willing to invest more in activities that strengthen this aspect of their operations. Ibrahim and Zulkafli (2016) verified the existence of a relationship between corporate governance practices implemented by companies and types of HR management practices adopted. Murtaza et al. (2016) in turn, when analysing through a prism of market share, diagnosed a relationship between ownership and management attributes and the company performance. Pinillos et al. (2020) examined the extent to which the issue of corporate governance along with environmental and social criteria is taken into account by the most prominent indexes relating to sustainability. Iglesias et al. (2022) carried out a research to answer

the question of whether corporate governance features such as management compensation, board composition, ownership structure and control are somehow interrelated and interdependent on the performance of business organisations. Havel et al. (2023) present the development of company law after 1989 against the background of a gradual change in the private law and its paradigms. In doing so, they note that the lack of practical development of certain aspects of corporate governance or corporate social responsibility does not result from the inadequacy of legal regulations, but is rather a result of overestimating the personal qualities of entrepreneurs, their reluctance to introduce complex governance structures.

This synthetic overview points to the potential of research which, when undertaken in relation to corporate governance, can enrich knowledge of its role and quality. Given the significant, and at the same time global in scope, changes in corporate governance guidelines, it is expected that academic research on corporate governance will grow significantly. This is because its practice does not remain indifferent to its helpful revised guidelines, which take into account difficult pandemic experiences and the directional necessity of sustainable development. For this reason, it is agreed here that recognising the most current developments, guidance and responsibilities in this area is paramount to establishing research niches and to verifying or updating the results of scientific research conducted to date.

Taking the foregoing into account, the development of corporate governance principles has been presented first (in a synthetic historical) from the OECD perspective, followed by a closer look at the European Union's sustainability reporting standard for corporate governance. This somewhat educational idea serves to present two levels of corporate governance: the organisation of corporate governance in practice and the reporting of corporate governance to its stakeholders. As a result of the characteristics presented, it is concluded that the confrontation of the guidelines for corporate governance with the reporting standard may be an interesting area of investigation. This finding leads the author to make several recommendations for organisational and reporting practices in that respect.

1. 1999–2020 corporate governance imperatives from the perspective of the OECD

The guardian of the principles of corporate governance, promoted globally by the OECD and set forth in the document titled *G20/OECD Principles of Corporate Governance*, is the *OECD Corporate Governance Committee*[2]. Since the first

[2] The OECD Corporate Governance Committee coordinates and manages the Organisation's works on corporate governance, oversees the implementation of the G20/OECD Corporate Governance

publication (in 1999) of the principles compiled in a document titled OECD *Principles of Corporate Governance* (OECD, 1999), the principles have become an international reference for decision-makers, investors, corporations and other stakeholders around the world. This fact was further reinforced by the inclusion of the OECD-developed corporate governance principles in the *Financial Stability Board's Key Standards for Sound Financial Systems (About the FSB, n.d.).* In addition, they provide a point of reference in the area of corporate governance and in the preparation by the World Bank and the International Monetary Fund (World Bank, International Monetary Fund) of reports known as the *ROSCs* (*Reports on the Observance of Standards and Codes – ROSCs*[3]), which summarise the extent to which countries adhere to certain internationally recognised standards and codes. These principles also form the basis for a number of sector documents on corporate governance, including the *Basel Committee on Banking Supervision's Corporate Governance Principles for Banks*, the OECD's *Guidelines for Pension Fund Governance, and the International Association of Insurance Supervisors' Principles on Corporate Governance of Insurers*.

The *Principles*, promulgated in 1999, were revised as early as in 2002, in response to, among many, corporate scandals that strongly focused the attention of governments on the need to improve corporate governance practices. The OECD's observation that decision-makers have been increasingly aware of the importance of good corporate governance in ensuring the stability of financial markets, investments and economic growth is also very important, and at a microeconomic level it has been noted that the understanding of corporate governance and the implementation of its principles contribute to the competitiveness of a business organisation. It has also been recognised that the issue of corporate governance has also been gaining on importance to a growing group of stakeholders, including collective investment institutions and pension funds acting in a fiduciary capacity. Seeking to increase the value of its investments, the group plays an important role in ensuring good corporate

Principles and the OECD Guidelines on Corporate Governance in State-Owned Enterprises, and directs and supports the OECD's dialogue with the economies of various countries in this area.

[3] ROSC summarise the extent to which countries adhere to certain internationally recognised standards and codes. *The International Monetary Fund* (IMF) has recognised 12 areas and related standards as useful for the operations of the Fund and the World Bank. These include accounting, auditing, anti-money laundering and countering the financing of terrorism (AML/CFT), banking supervision, corporate governance, data dissemination, fiscal transparency, insolvency and creditors' rights, insurance supervision, monetary and financial policy transparency, payment systems and securities regulations. Reports summarising the countries' compliance with these standards are prepared and published at the request of member states. Short updates are compiled on a regular basis, and new reports are produced every few years. See: (*Reports on the Observance*, n.d.).

governance practices. Nor could the OECD be indifferent to the fact that in today's economies, interest in corporate governance goes beyond shareholder interest in the performance of individual companies. Indeed, good corporate governance has been increasingly important to various growing segments of society (OECD, 2004, p. 4).

The revision of the principles commenced in 2002 was completed in 2004 and described in document entitled the OECD *Principles of Corporate Governance* (OECD, 2004), which – to ensure that the principles are up-to-date and relevant to the dynamically changing environment – underwent another revision. This resulted in another set of G20/OECD *Principles of Corporate Governance* guidelines (OECD, 2015). This time, the review involved undertaking expert and empirical and analytical research that primarily addressed significant changes in both the corporate and financial sectors (OECD, 2015, pp. 3–4).

A comparison of the literal wording of the OECD's corporate governance imperatives specified in the aforementioned three documents (OECD, 1999), (OECD, 2004), (OECD, 2015) may lead to an observation that the changes made were cosmetic in nature. However, this observation led to an analysis of the detailed development/description/commentary of each of the key principles.

Guided by the primary purpose of this text, a generalised characterisation of the 2015 *Principles* is presented here, as immediately preceding the version of the *Principles* currently in effect, as will be discussed later herein.

A review of the *G20/OECD Principles of Corporate Governance* (2015) yields several conundrums, most of which – understandably given the OECD's mission – place the burden more on providing general guidance of a more macro- than micro-economic nature. The OECD justifies this at the introduction to the Principles by stating that they are not intended to present detailed regulation which would be translatable directly into national legislation. They are rather conceived as a point of reference recommended for use by national decision-makers and by market participants when developing legal frameworks and other regulatory arrangements relating to corporate governance, which reflect, however, their own economic, social, legal and cultural circumstances.

As far as the synthetic presentation of the contents of the 2015 *Principles* is concerned, the following can be concluded (in keeping with: OECD, 2015). Firstly, the *Principles* emphasise more strongly the synergy between macroeconomic policies and corporate governance that encompasses a set of relationships between the company's management, shareholders and other stakeholders, and that is one of the key elements in improving growth and ensuring integrity and financial stability of the market. Secondly, the *Principles* are formulated in such a way as to help assess and improve legal, institutional and regulatory frameworks that affect corporate governance and provide guidelines to stock exchanges, investors, corporations and other entities that play an important role in developing good

standards and practices in this area. Thirdly, the *Principles* indicate that corporate governance provides organisational arrangements that establish goals for the company's operations, the ways to achieve them and monitor performance, as well as an incentive system associated with them. Fourthly, the *Principles* emphasise that while they focus on listed companies, both financial and non-financial, they can also be a useful tool for improving corporate governance in non-commercial companies. Fifthly, they point to the need for institutional arrangements that provide the basis for an effective corporate governance framework, including appropriate supervisory, regulatory and enforcement institutions. And finally, the Principles also define the role of stakeholders in corporate governance and set forth (in a manner based on a set of six directional guidelines) conditions necessary to ensure that they are provided in a timely and accurate manner with information on all key issues affecting the company. They also determine what is needed to ensure that the company is run in a strategic manner and that management is monitored effectively.

2. 2020 – the new face of uncertainty triggered by COVID-19 and revision of corporate governance imperatives

An immediate rationale for the next revision of corporate governance principles, as further discussed below, has become the new face of uncertainty that emerged with COVID-19. The impact of the crisis conditions caused by the pandemic is still being felt in many aspects of business operations, and it was shocking to the world during the pandemic. The pandemic challenged the basic assumptions of the governance model based on the agency theory, which is one of the theoretical concepts of corporate governance, the essence of which is related to the primacy of shareholders (owners).[4] The pandemic has shown that every stakeholder group matters to the operation of a company and that satisfying the expectations of multiple parties simultaneously is a major challenge. In the context of the COVID-19's impact on corporate governance, the issue was analysed in detail by Lynn Sharp Paine (Harvard Business School), who presented her observations in the document entitled *Covid-19 is Rewriting the Rules of Corporate Governance*. Following her lead, it can be highlighted at this point that meeting the challenges that the new 'uncertainty' has triggered requires that (Paine, 2020):

1) more attention be paid to the impact of business on society and that social problems be addressed and resolved efficiently, and that systemic

[4] Agency theory depicts a company as a network of contacts ('agency relationships') occurring between shareholders, other providers of finance (lenders) and managers.

solutions be introduced in this regard; this is because the responsibility associated with this and such actions are becoming the rule;
2) closer attention be drawn to remuneration and its incentive nature when an unexpected downturn makes business goals a secondary concern;
3) decisions be made in a more thoughtful manner, because ‘maximising shareholder value’ loses its meaning if unprecedented problems have to be remedied and investments in personal health care equipment have to be made or the company’s business profile has to be changed to one that serves society in these difficult conditions better than the existing one;
4) more attention be paid to the composition of management boards, including in terms of their gender diversity;
5) works be carried out that are increasingly demanding for management, given the need to permanently track and discuss developments, update current plans and strategies, as well as apply various risk mitigation tools.

The COVID-19 issue has also been reflected in the conclusions made in the two 2021 OECD reports: *The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis* (The Future, 2021) and *OECD Corporate Governance Factbook* (Corporate, 2021). These in turn led the *OECD Corporate Governance Committee* to revise the 2015 *Corporate Governance Principles*.

3. 2023 – Kolejna rewizja imperatywów ładu korporacyjnego promowanych przez OECD

A review of the principles (G20/OECD *Principles of Corporate Governance*, 2015) began in November 2021 (*Review*, n.d.) The principles were revised by the OECD, G20 and FSB, as well as other countries (in a round-table format, from Asia, Latin America and the Middle East). A clear goal was set before this exercise: to update the corporate governance principles to a form that would be appropriate for the environment shaped by COVID-19. Changes involved strengthening the focus on risk management and improving the companies’ access to financing.

The OECD *Corporate Governance Committee* identified (and presented in February 2022 in a report concerning the review) 10 priority areas on which the review was focused. They have been defined as follows (*OECD Secretary*, 2022):

1) managing climate change and other environmental, social and governance (ESG) risks,
2) corporate ownership trends and increased concentration,
3) the role of institutional investors and *stewardship*,
4) the development of new digital technologies and emerging opportunities and threats,

5) crisis and risk management,
6) excessive risk-taking in the non-financial corporate sector,
7) the role and rights of debtors in corporate governance,
8) management remuneration,
9) the role of audit committees,
10) diversity of management boards and senior management.

This document stresses several times the importance of internal and external audits, the quality of which is a prerequisite for the confidence of various stakeholder groups in both financial and non-financial information presented by companies (OECD Secretary, 2022, pp. 7, 9, 36, 42).

The review was conducted by the OECD Corporate Governance Committee between November 2021 and March 2023, and as a result of this 18-month works the revised corporate governance principles were approved at the G20 Summit held on 9–10 September 2023 (*Review*, n.d.). Thus, the *G20/OECD Principles of Corporate Governance* (2023) is now the most up-to-date international corporate governance standard.

Their primary goal is to help decision-makers create a legal, regulatory and institutional framework for corporate governance that will effectively promote economic efficiency, sustainable growth and financial stability. The principles outlined in this document reflect recent developments in capital markets and corporate governance practices. They introduce many new and updated recommendations. They concern shareholder rights, the role of institutional investors, corporate disclosure and reporting, the responsibilities of supervisory boards and, for the first time, sustainability (OECD, 2023, p. 3). According to Mathias Cormann, OECD Secretary-General, the G*20/OECD Corporate Governance Principles* (2023) are [still – AK note] a major international point of reference for good corporate governance. They are global in scope, and while they reflect experiences and ambitions of many different jurisdictions, with different legal systems and at different stages of development, they '*reflect the strong desire of all the OECD and G20 members for the Principles to provide guidance on corporate sustainability and resilience, and to help companies manage environmental and social risks, support disclosure of information that is important to shareholders and other stakeholders, and to define in detail responsibilities of the company boards*' (OECD, 2023, p. 3).

The *G20/OECD Corporate Governance Principles* are designed to help decision-makers assess and improve the legal, regulatory and institutional framework for corporate governance. This is because they identify the key components of a sound corporate governance framework and offer practical guidance for its implementation at the national level. The *Principles* also provide guidance to stock exchanges, investors, corporations and others who play a role in the development of good corporate governance (OECD, 2023, p. 51).

The *G20/OECD Corporate Governance Principles* (2023) include, similarly to those in *G20/OECD* (2015), six imperatives, the current wording of which, including a synthesised elaboration, is presented in Table 1.

Table 1. Organisational imperatives of corporate governance according to the *G20/OECD Corporate Governance Principles* (2023)

The imperative blocks of corporate governance	**Synthetic characteristics**
BLOCK I ENSURING THE BASIS FOR AN EFFECTIVE COR-PORATE GOVERNANCE FRAMEWORK The corporate governance framework should promote transparent and fair markets, and efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement..	• *The corporate governance framework should be developed with a view to its impact on corporate access to finance, overall economic performance and financial stability, the sustainability and resilience of corporations, market integrity, and the incentives it creates for market participants and the promotion of transparent and well-functioning markets.* • *The legal and regulatory requirements that affect corporate governance practices should be consistent with the rule of law, transparent and enforceable. Corporate governance codes may offer a complementary mechanism to support the development and evolution of companies' best practices, provided that their status is duly defined.* • *The division of responsibilities among different authorities and self-regulatory bodies should be clearly articulated and designed to serve the public interest.* • *Stock market regulations should support effective corporate governance.* • *Supervisory, regulatory and enforcement authorities should have the authority, autonomy, integrity, resources and capacity to fulfil their duties in a professional and objective manner. Moreover, their rulings should be timely, transparent and fully explained.* • *Digital technologies can enhance the supervision and implementation of corporate governance requirements, but supervisory and regulatory authorities should give due attention to the management of associated risks.* • *Cross-border co-operation should be enhanced, including through bilateral and multilateral arrangements for exchange of information.* • *Clear regulatory frameworks should ensure the effective oversight of publicly traded companies within company groups.*

The imperative blocks of corporate governance	**Synthetic characteristics**
BLOCK II THE RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS AND KEY OWNERSHIP FUNCTIONS The corporate governance framework should protect and facilitate the exercise of shareholders' rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders.	• *Basic shareholder rights should include the right to: 1) secure methods of ownership registration; 2) convey or transfer shares; 3) obtain relevant and material information on the corporation on a timely and regular basis; 4) participate and vote in general shareholder meetings; 5) elect and remove members of the board; 6) share in the profits of the corporation; and 7) elect, appoint or approve the external auditor.* • *Shareholders should be sufficiently informed about, and have the right to approve or participate in decisions concerning fundamental corporate changes such as: 1) amendments to the statutes, articles of incorporation or similar governing documents of the company; 2) the authorisation of additional shares; and 3) extraordinary transactions, including the transfer of corporate assets that in effect result in the sale of the company.* • *Shareholders should have the opportunity to participate effectively and vote in general shareholder meetings, and should be informed of the rules, including voting procedures, that govern general shareholder meetings.* • *Shareholders, including institutional shareholders, should be able to consult with each other on issues concerning their basic shareholder rights as defined in the Principles, subject to exceptions to prevent fraud.* • *All shareholders of the same series of a class should be treated equally. All investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in economic or voting rights should be subject to approval by those classes of shares which are negatively affected.* • *Related party transactions should be approved and conducted in a manner that ensures proper management of conflicts of interest and protects the interests of the company and its shareholders.* • *Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Abusive self-dealing should be prohibited.* • *Markets for corporate control should be allowed to function in an efficient and transparent manner.*

The imperative blocks of corporate governance	Synthetic characteristics
BLOCK III INSTITUTIONAL INVESTORS, STOCK MARKETS AND OTHER INTERMEDIARIES The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.	• *The corporate governance framework should facilitate and support institutional investors' engagement with their investee companies. Institutional investors acting in a fiduciary capacity should disclose their policies for corporate governance and voting with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights. Stewardship codes may offer a complementary mechanism to encourage such engagement.* • *Votes should be cast by custodians or nominees in line with the directions of the beneficial owner of the shares.* • *Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.* • *The corporate governance framework should require that entities and professionals that provide analysis or advice relevant to decisions by investors, such as proxy advisers, analysts, brokers, ESG rating and data providers, credit rating agencies and index providers, where regulated, disclose and minimise conflicts of interest that might compromise the integrity of their analysis or advice. The methodologies used by ESG rating and data providers, credit rating agencies, index providers and proxy advisers should be transparent and publicly available.* • *Insider trading and market manipulation should be prohibited and the applicable rules enforced.* • *For companies who are listed in a jurisdiction other than their jurisdiction of incorporation, the applicable corporate governance laws and regulations should be clearly disclosed.* • *Stock markets should provide fair and efficient price discovery as a means to help promote effective corporate governance.*

The imperative blocks of corporate governance	Synthetic characteristics
BLOCK IV DISCLOSURE AND TRANSPARENCY The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, sustainability, ownership, and governance of the company.	• *Disclosure should include, but not be limited to, material information on: the financial and operating results of the company, company objectives and sustainability-related information, capital structures, group structures and their control arrangements, major share ownership, including beneficial owners, and voting rights, information about the composition of the board and its members, including their qualifications, the selection process, other company directorships and whether they are regarded as independent by the board, remuneration of members of the board and key executives, related party transactions, foreseeable risk factors, governance structures and policies, including the extent of compliance with national corporate governance codes or policies and the process by which they are implemented, debt contracts, including the risk of non-compliance with covenants.* • *Information should be prepared and disclosed in accordance with internationally recognised accounting and disclosure standards.* • *An annual external audit should be conducted by an independent, competent and qualified auditor in accordance with internationally recognised auditing, ethical and independence standards in order to provide reasonable assurance to the board and shareholders on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.* • *External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit in the public interest.* • *Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by users.*

The imperative blocks of corporate governance	Synthetic characteristics
BLOCK V THE RESPONSIBILITIES OF THE BOARD The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.	• *Board members should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and the shareholders, taking into account the interests of stakeholders.* • *Board members should be protected against litigation if a decision was made in good faith with due diligence.* • *Where board decisions may affect different shareholder groups differently, the board should treat all shareholders fairly.* • *The board should apply high ethical standards.* • *The board should fulfil certain key functions, including: reviewing and guiding corporate strategy, major plans of action, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures; reviewing and assessing risk management policies and procedures; monitoring the effectiveness of the company's governance practices and making changes as needed; selecting, overseeing and monitoring the performance of key executives, and, when necessary, replacing them and overseeing succession planning; aligning key executive and board remuneration with the longer term interests of the company and its shareholders; ensuring a formal and transparent board nomination and election process; monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and fraud in related party transactions; ensuring the integrity of the corporation's accounting and reporting systems for disclosure, including the independent external audit, and that appropriate control systems are in place, in compliance with the law and relevant standards; overseeing the process of disclosure and communications.* • *The board should be able to exercise objective independent judgement on corporate affairs.* • *In order to fulfil their responsibilities, board members should have access to accurate, relevant and timely information.* • *When employee representation on the board is mandated, mechanisms should be developed to facilitate access to information and training for employee representatives, so that this representation is exercised effectively and best contributes to the enhancement of board skills, information and independence.*

The imperative blocks of corporate governance	**Synthetic characteristics**
BLOCK VI SUSTAINABILITY AND RESILIENCE The corporate governance framework should provide incentives for companies and their investors to make decisions and manage their risks, in a way that contributes to the sustainability and resilience of the corporation.	• *Sustainability-related disclosure should be consistent, comparable and reliable, and include retrospective and forward-looking material information that a reasonable investor would consider important in making an investment or voting decision.* • *Corporate governance frameworks should allow for dialogue between a company, its shareholders and stakeholders to exchange views on sustainability matters as relevant for the company's business strategy and its assessment of what matters ought to be considered material.* • *The corporate governance framework should ensure that boards adequately consider material sustainability risks and opportunities when fulfilling their key functions in reviewing, monitoring and guiding governance practices, disclosure, strategy, risk management and internal control systems, including with respect to climate-related physical and transition risks.* • *The corporate governance framework should consider the rights, roles and interests of stakeholders and encourage active co-operation between companies, shareholders and stakeholders in creating value, quality jobs, and sustainable and resilient companies.* • *Mechanisms for employee participation should be permitted to develop.* • *Where stakeholders participate in the corporate governance process, they should have access to relevant, sufficient and reliable information on a timely and regular basis.* • *Stakeholders, including individual workers and their representative bodies, should be able to freely communicate their concerns about illegal or unethical practices to the board and/or to the competent public authorities, and their rights should not be compromised for doing this.* • *The exercise of the rights of bondholders of publicly traded companies should be facilitated.* • *The corporate governance framework should be complemented by an effective and efficient insolvency framework and by effective enforcement of creditor rights.*

Source: based on *G20/OECD Corporate Governance Principles* (2023)

The structure of the 2023 *Principles* has changed as compared to their 2015 version. The wording of some of the guidelines and specific recommendations on how to apply them provided for in the *G20/OECD Corporate Governance Principles* (2023) have also been amended. It is easy to see that a strong emphasis has been placed on the issues of risk management and sustainability, and thus on the key issues discussed herein.

At this point, in order to highlight the global role of the *G20/OECD Principles of Corporate Governance* (2023) in promoting good practices in this scope, it is still necessary to state, following the clarifications provided for therein (by the way, analogous to those made available also in each of the previous versions of the *Principles*), that: '*The Principles are non-binding and do not aim to provide detailed prescriptions for national legislation. The Principles are not a substitute for nor should they be considered to override domestic law and regulations. Rather, they seek to identify objectives and suggest various means for achieving them, typically involving elements of legislation, regulation, listing rules, self-regulatory arrangements, contractual undertakings, voluntary commitments and business practices. A jurisdiction's implementation of the Principles will depend on its national legal and regulatory context. The Principles aim to provide a robust but flexible reference for policy makers and market participants to develop their own frameworks for corporate governance. To remain competitive in a changing world, corporations must innovate and adapt their corporate governance practices to meet new demands and grasp new opportunities. Taking into account the costs and benefits of regulation, governments have an important responsibility for shaping an effective regulatory framework that provides for sufficient flexibility to allow markets to function effectively and to respond to new expectations of shareholders and stakeholders* (OECD, 2023, p. 6).'

4. Significance of corporate governance in terms of sustainability reporting

Following the events and initiatives undertaken globally and relating to the issue of corporate governance, entwined with sustainability reporting, it is hard not to get the impression that the *G-Governance* (corporate Governance) used in this context should be equated with the operating completion of the ideas behind the *E-Environmental* (Ecology) and *S-Social* (Social responsibility) slogans. This leads to the next conclusion that the standardisation of management efforts and corporate governance activities relating to *E-Environmental* and *S-Social* is a complex issue, due in no small part to the fact that the modus operandi may vary in the practice of different entities, even if this is to occur within a certain – legally defined – framework. This means difficulty in standardising how corporate

governance works. Simultaneously, however, this prompts the stakeholders of entities to report the need for transparent presentation of information on the conduct of business, respecting the principles of sound management and management of assets that are not their own, and which should be carried out in accordance with rules based on fairness towards not only the owners of such assets, but also to other stakeholder groups. Disseminated guidelines for transparent reporting on the corporate governance of an economic organisation can thus be, especially in view of the fact of strongly growing uncertainty, a valuable guideline in assessing achievements and potential of an organisation.

Various international institutions make efforts to develop appropriate reporting guidelines. They are all the greater as the standardisation attempts come with the premise of developing guidelines that are either global in scope or smaller, but still multi-state scale[5]. Unsurprisingly, the process of agreeing on standard

[5] The first area of change and opportunity important for reporting by business organisations is related to the announcement on 3 November 2021 of the *International Financial Reporting Standards (IFRS Foundation)* by the *International Sustainability Standards Board (ISSB)* (*Sustainability*, n.d.), which took place in Glasgow, during the *UN Climate Change Conference, Conference of the Parties – COP26. (COP26 (Conference of the Parties*)) refers to the 'conference of the parties' at the UN Climate Change Convention held between 31 October and 13 November 2021 in Glasgow. At the convention, the parties reviewed their commitments in pursuit of the goal of keeping an increase in the global average temperature well below 2 °C in relation to its pre-industrial levels, and continuing efforts to limit an increase in the temperature to 1.5 °C). The ISSB's declaration to develop a globally unified approach to reporting ESG factors, made by Erkki Liikanen, head of the IFRS Foundation, is perceived as an outcome of COP26, with which it can be hoped that the diversity of approaches commonly found around the world and of disadvantageous comparabilities be sorted. See: (*How?* , n.d.). This declaration has been followed by an announcement made on 3 November 2021 by the *IFRS Foundation*, according to which it intends to join the most prominent centres for developing methodologies and guidelines for ESG reporting: *Climate Disclosure Standards Board – CDSB*, which is an initiative under the *Carbon Disclosure Project – CDP* and the *Value Reporting Foundation – VRF*. See: (*IFRS Foundation announces*, n.d.). *Carbon Disclosure Project – CDP* is a non-profit charitable organisation that manages a global disclosure system for investors, companies, cities, states and regions for the purposes of managing their environmental impact. The global economy views the *CDP* as the gold standard for environmental reporting with the richest and most comprehensive collection of data on corporate and municipal operations. See: (*Who we are*, n.d.). *Value Reporting Foundation – VRF* is a global non-profit organisation that offers a comprehensive set of resources designed to help companies and investors develop a common comprehension of the enterprise value, i.e., how it is created, preserved and lost. *Value Reporting Foundation* is the result of joining forces of: the *International Integrated Reporting Council – IIRC* and the *Sustainability Accounting Standards Board – SASB*. See: (*The Value*, n.d.). At this point,

solutions requires that procedures be simultaneously politically appropriate and legitimate in terms of quality and contents[6]. Business practice, on the other hand, in coping with uncertainty and ongoing economic circumstances in its area, must be prepared to meet an obligation whose framework emerges on many levels, becoming a truly difficult accounting and reporting challenge to which corporate governance cannot remain indifferent (*Exposure Draft*, 2022).

Evaluating compliance of the entities' operations with the sustainability imperative and its reporting (ESG) has serious consequences, as it affects the company's market value, its perception by various stakeholder groups, among which are investors and creditors, counterparties and customers. When deciding on whether to invest in a company, to make commercial contracts, or to provide a source of financing, these stakeholders evaluate non-financial characteristics along with financial indicators. In this assessment, it is important how the entity addresses the impact of climate change on its operations and its activities on the environment, what steps it takes to improve working conditions for employees, and whether management operating

---

the author welcomes the fact that participants in the global accounting policy has found the will to cooperate in the development of a single non-financial reporting model instead of many different ones. The issue of complexity, the multiplicity of guidelines, the costs involved, the incomparability and generally the need to clean up the mess of non-financial reporting was raised by the author as early as in 2016 (Hejduk, Karmańska, 2016) and again in 2019 (Hejduk, Karmańska, 2019).

[6] The prospect of developing a unified ESG reporting standard becomes real and looks promising, not only because the *ISSB* can base its works on the results obtained in the course of the I*FRS Foundation's* past cooperation with institutions such as the *Global Reporting Initiative – GRI* and the *Task Force on Climate-related Financial Disclosures – TCFD*. The results of this collaboration were reflected in an invaluable joint effort to determine (in 2021) the way in which key methodologies used by the ESG leaders connect. For the sake of completeness, it is worth adding here that, in addition to representatives of the world of financial and non-financial reporting, the International *Organisation of Securities Commissions – IOSCO* has also been involved in the cooperation in this area, and can play an important role in the implementation of the standards developed (globally and in the EU). The basis for a coherent, comprehensive sustainability reporting system was developed in 2021 by leading sustainability reporting organisations (*Climate Disclosure Standards Board - CDSB*, *Carbon Disclosure Project - CDP*, *Global Reporting Initiative - GRI*, *International Integrated Reporting Council - IIRC*, and *Sustainability Accounting Standards Board - SASB*). See: (*Why ESG?*, n.d.). *GRI* is an independent international organisation that has been a pioneer in sustainability reporting since 1997. The *GRI* indicators are an international standard for reporting on sustainability and responsible business issues for companies. See: (The global leader, n.d.). The *Task Force* on *Climate-related Financial Disclosures* (*TCFD*) is a task force on climate-related financial disclosures established by the *Financial Stability Board* to improve and enhance reporting of climate-related financial information. See: (*Task Force*, n.d.).

under a particular leadership model is actually effective. This makes thinking through a prism of sustainability an integral part of every process implemented in the organisation. The accountability of each of them is important here and depends on corporate governance practices.

Based on the foregoing, it can be concluded that the concept of corporate governance serves to solve the problem defined by the agency theory as the formation of relationships between entities that have different interests: the owners of the company (principals) and the management hired to manage their assets (agents). Today, the imperative of sustainability means that owners aware of the need of combining financial goals with environmental and social issues expect the same from the persons holding managerial positions. Changes in the investing procedures towards socially responsible investing lead to the situation in which, in the cases of many entities, the existing corporate governance principles may need to be revised and improved. Measures adopted for that purpose can therefore be focused in two areas: *corporate governance practices relating to the board of directors and corporate governance practices relating to shareholders* (*more broadly: investors*) (Glen et al., 2023, p. 326).

In terms of *corporate governance practices relating to the board of directors*, three issues are of particular significance. The first one is related to ensuring that the effectiveness of the board of directors is supervised, which requires that a supervisory board or board of directors is composed of qualified, independent, well-informed, diverse, committed persons with an unambiguous attitude of not permitting that monitoring and supervisory functions be interfered with. The second issue refers to the organisation of the supervisory activities, which can be assisted by special committees, appointed by tasks to be overseen, in particular, by important areas of supervision. These committees become then an integral part of the entity's corporate governance. The third issue relates to remuneration of the entity's management, which can be linked to the interests of the entity's owners through the use of incentives such as 'performance fee'. On the other hand, in terms *of corporate governance practices relating to shareholders (investors)*, the focus is primarily on two practices: those relating to the exercise by shareholders of their voting rights and those ensuring that shareholders are able to communicate and cooperate with the board of directors or supervisory board.

The synthetic overview of corporate governance presents this concept through a prism of a potential risk that can arise from the improper formation of relations between the company's management and ownership. Corporate governance that ignores the 'E' and 'S' rationale can lead not only to a loss of reputation or other significant economic risks. It can even result in a business entity becoming bankrupt. Therefore, within the framework of sustainability reporting standards, corporate governance should be of particular importance. This is because sound corporate governance is an important information message, a prerequisite for the successful

implementation of policies, projects and for the application of measures in order to address environmental and social challenges.

This section does not focus on assessing past corporate governance practices in Poland[7], nor does it apply to practices in other European countries. This is being done for the reason that unprecedented changes have just taken place in the EU

---

[7] A good description of corporate governance practices in Poland has been obtained as a result of the survey conducted in September 2020 by the CFA Society Poland, See: (Corporate Governance, n.d.). Its purpose was, among other, to find out opinions of finance specialists and the state of knowledge on corporate governance practices in Poland.

Thus:

1) Corporate governance is one of the key factors that determine the reputation of companies in the long term, and consequently their investment attractiveness;
2) The prevailing view is that the degree of compliance with corporate governance principles among the companies listed on the Warsaw Stock Exchange is low;
3) The majority of respondents are of the opinion that the size of the company has no impact on compliance with corporate governance principles, and that the approach of the key shareholder is more important;
4) In Poland, the adherence to corporate governance principles is primarily associated with the way companies are managed and controlled based on statutes, regulations and procedures, but the concept of corporate governance is related with the way a board of directors treats shareholders, and in particular the minority shareholders;
5) Investors, consider the quality of the financial statements and of the report of the management board, as well as the company's approach to minority shareholders as the most important elements of corporate governance;
6) The composition of supervisory boards is important; it should not be the case that persons appointed to the board by a major shareholder represent primarily its views, rather than the interests of all shareholders; independent board members are needed in companies; the most important factor for their independence is the absence of a reasonably identifiable conflict of interest;
7) Investors in Poland have limited confidence in the companies' declarations that they adhere to the principles of corporate governance; they emphasise the need to put pressure on the issue of corporate governance in their investment decisions, as this would also become more important for the company boards;
8) The corporate governance statement can be a valuable source of information for capital market participants and those wishing to include the 'G factor' in their investment decisions, only if it communicates reliably the status quo; hence, the need to have the content of the statements verified externally; to decide on the person that should carry out this task:

a statutory auditor, the FSA, a trade organiser or perhaps another entity – each of which has its own advantages and disadvantages.

laws relating to sustainability reporting, the effects of which will take some time to materialise. (In December 2022, *the Corporate Sustainability Reporting Directive* (CSRD) was adopted, i.e., 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 with regard to corporate sustainability reporting (OJ L 322/15). In addition, on 31 July 2023, the European Commission issued a delegated regulation introducing the first set of twelve sustainability reporting standards (*The European Sustainability Reporting Standards – ESRS*)[8].

[8] On 31 July 2023, the European Commission adopted a delegated regulation adopting European Sustainability Reporting Standards. It is a set of 12 universal standards, consisting of: 2 cross-cutting standards, namely ESRS 1 General *Requirements and ESRS* 2 *General Disclosure*, and 10 topical standards, including: 5 standards on environmental issues (ESRS E1 *Climate Change*, ESRS E2 *Pollution*, ESRS E3 *Water and Marine Resources*, ESRS E4 *Biodiversity and Ecosystems*, ESRS E5 *Resource Use and Circular Economy*), 4 standards on social issues (ESRS S1 *Own Workforce*, ESRS S2 *Workers in the Value Chain*, ESRS S3 *Affected Communities*, ESRS S4 *Consumers and End-Users*), and 1 standard on management issues (ESRS G1 *Business Conduct*). These standards will be applied by the first group of entities (the largest public interest entities currently reporting non-financial information) as early as for 2024 sustainability reporting. (See: *Commission Delegated Regulation* (EU), (2023)).
At the occasion, Mairead McGuinness, Commissioner for Financial Services, Financial Stability and Capital Markets Union, said: '*The standards we adopted today are ambitious and are an important tool underlying the EU's sustainable financing program. They strike the right balance between reducing the burden on reporting companies, while allowing them to demonstrate their efforts to implement the green agenda, and thus access sustainable financing*.' Cf. (The *Commission* adopts, n.d.). It is worth mentioning that these standards cover the full range of environmental, social and corporate governance issues, and also have been discussed with the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI) to ensure a very high degree of interoperability between the EU and global standards and to prevent unnecessary double reporting by companies (The Commission adopts, n.d.). At the EFRAG itself, the fact that the European Commission has adopted the above standards is considered a milestone for adequate and comparable sustainability reporting and the 'mission accomplished'. It culminates the ongoing process of developing relevant projects, which started in September 2020 (April 2022, November 2022). Patrick de Cambourg, the chairman of the EFRAG SRB (European Financial Reporting Advisory Group Sustainability Reporting Board), commented: *'Owing to the CSRD and now the Delegated Act on Sector-Independent European Sustainability Reporting Standards [ESRS – A.K. note], we are pleased to confirm such a critical step toward the goal of putting sustainability reporting on par with financial reporting has been accomplished. (...) We will now make every effort to facilitate implementation and make the ESRS a success.'* Cf. (*EFRAG welcomes*, n.d.).

At this point, it is worth pointing out to coincidence of these events with the publication of the aforementioned *G20/OECD Corporate Governance Principles (2023).* Thus, on the one hand, there are guidelines on how to ensure corporate governance, and on the other, on how to present reporting information on it. Thus, the two sources of information (OECD Action Guidelines and EU reporting standards) can be recognised as somewhat complementary, and supplementary, and their confrontation can be cognitive in several aspects, especially since the wording of these documents is based on similar foundations, derived from the premises and principles of sustainable development.

5. Confronting organisational guidelines with reporting guidelines in the area of corporate governance

Given that the corporate governance reporting, which is mandatory for certain entities, follows the *ESRS G1 Business Conduct* standard, it is necessary to focus on issues that strongly relate to the management practices adopted by entities. A list of questions that gives an idea of what should be reported as part of a report on corporate governance of a business entity has been presented below. The importance of these issues in the structure of the referenced standard should be viewed simultaneously: from an *external stakeholder perspective* and from a *management perspective*. This is because the standard indicates particularly sensitive areas of decisions and activities of the entity's management, which as one of the criteria of socially responsible investing will be of great significance for the evaluation of the company's achievements, and for this reason strongly forms part of corporate governance, i.e., order and management governance in the entity (Table 2).

Tabela 2. Specification of corporate governance issues subject to reporting

(G1) CORPORATE CULTURE The entity discloses information on its policies with regard to conducting business activities and on the way in which it promotes its corporate culture.	• *How are the entity's administrative, management and supervisory bodies engaged in creating, monitoring, promoting and assessing its corporate culture?* • *Is the entity capable of mitigating negative impacts and enhancing positive impacts associated with its operations?* • *Does the entity monitor and manage the risks involved?* • *Does the entity have mechanisms in place to identify, report and investigate concerns about illegal behaviour or behaviour contrary to the code of conduct or similar documents?* • *Does the entity already have an anti-corruption or bribery policy, and if not, in what mode does it plan to implement it?* • *How is whistleblowing organised in the entity, and in particular, protection for whistleblowers and those employees who refuse to act unethically? How does the entity act to prevent retaliation against these individuals?* • *Does the entity, if justified, have an animal welfare policy?* • *What is the entity's strategy for internal training activities?* • *Does the entity identify functions and processes that are most vulnerable to corruption/bribery?*
(G2) SUPPLIER RELATIONSHIP MANAGEMENT The entity provides information on supplier relationship management and on its impacts on the supply chain.	• *What is the entity's strategy in relation to relationships with suppliers, and in particular in the context of supply chain risk and sustainability in general?* • *Does or how does the entity take into account social and environmental criteria when selecting business partners?* • *How does the entity support its key (important) business partners in strengthening their environmental and social performance?*

(G3) PREVENTION AND DETECTION OF CORRUPTION AND BRIBERY The entity provides information on its system for preventing, detecting, investigating and responding to allegations or incidents of corruption or bribery, including training on these issues.	• *Does the entity have procedures in place to prevent, detect and respond to allegations or incidents of corruption/bribery?* • *Is the investigator or investigating committee truly independent, uninvolved in the cases pending?* • *Is there a clear process for reporting events of corruption/crime to administrative, management and supervisory bodies?* • *How does the entity communicate relevant policies to those for whom they are relevant to ensure that the policies are accessible and their consequences are understood?* • *Does the entity hold training (of what nature and detail) on anti-corruption/bribery?* • *To whom are they addressed?*
(G4) INCIDENTS INVOLVING CORRUPTION OR BRIBERY The entity provides information on incidents of corruption or bribery in the reporting period.	• *Does the entity ensure transparency in disclosing information on the confirmed incidents of corruption or bribery, and how?* • *Does it communicate their quantity and nature?* • *Does it provide information on convictions and on fines for violations of anti-corruption and anti-bribery laws?* • *Does it disclose details of public corruption or bribery court cases brought against the entity and its employees and results of such cases, of confirmed incidents in which employees were fired or disciplined for corruption or bribery?* • *Does it report on confirmed incidents concerning contracts with contractors that were terminated or not renewed due to violations related to corruption or bribery?* • *How does the entity protect individuals who expose corruption or crime (whistleblowers)?*
(G5) POLITICAL INFLUENCE AND LOBBYING ACTIVITIES The entity provides information on activities and commitments related to political influence, including lobbying activities related to its material impacts, risks and opportunities.	• *What kind of activities does the entity undertake in this area?* • *What is their purpose and what are the costs associated with them?* • *Who in the administrative, management and supervisory bodies is responsible for overseeing these activities?* • *What is the financial and in-kind political (direct and indirect) involvement of the entity and who and where is the beneficiary of this activity?* • *What issues (topics) are lobbied on and what position does the individual take?* • *Does the entity appear in the EU or national transparency register?*

(G6) PAYMENT PRACTICES The entity provides information on its payment practices, in particular, with regard to late payments to small and medium-sized enterprises (SMEs).	• *What payment policy (contractual terms and actual realisations) does the entity adopt for SMEs?* • *What are the entity's standard payment terms (in days) by major supplier category?* • *How long is the average – actual – term (in days) of trade credit?* • *How much of the entity's payment is in practice consistent with standard terms and conditions?* • *Are there any legal proceedings pending regarding late payments?*

Source: based on *Commission Delegated Regulation* (EU) (2023), Annex 1, pp. 271–280

In confronting the *G20/OECD Principles of Corporate Governance (2023)* with the aforementioned EU reporting guidelines, one may be tempted to formulate some observations and then recommendations for business organisations which should already face them in the not-too-distant future and, for this reason, evaluate, or review, the current way of doing business. They are formulated as follows.

1) Both sources of guidance are strongly anchored in the idea of sustainable development.
2) The OECD guidelines provide for an in-depth picture of the good corporate governance properties, which requires, first and foremost, macroeconomic activities and decisions, largely of a legal and institutional nature. For these determine the framework for ensuring good corporate governance at a microeconomic level. Deficiencies or shortcomings in the first aspect can only result in negative effects and translate into a façade of sustainability and the actions of economic organisations. In countries that wish to subordinate their economies to this idea, this is the area of responsibility of the bodies that make national economic laws and decide on the institutional order for the security of economic transactions. (This is indicated primarily by the imperatives in Block I to III).
3) In turn, responsibility for organising corporate governance adequate to carry out business activities in a sustainable manner, at a microeconomic level, is primarily indicated by the imperatives that form part of Blocks IV and V in the OECD guidelines. They unequivocally emphasise the importance in this order of the professionalism of the accounting information system and the responsibility of external auditors, which jointly provide information on the financial and operational performance of the business organisation and information related to sustainable development. In

addition, they define in more details the function, powers and responsibilities of supervisory boards in business organisations.

4) The OECD guidelines (in Block VI) draw attention to the stakeholders of business activities and define their right of information and proper treatment, which implies that it is necessary to take care of corporate governance taking into account the specific needs of various external stakeholder groups and relationships with the business organisation concerned.

Sustainability reporting standards understandably take into account primarily the OECD guidelines, presented primarily in Block IV–VI. It can be said that they make them operational, so that the business organisation is made sensitive to issues that are important for carrying out business activities in the spirit of pursuing sustainability. The EU's concept of standardising a range of detailed issues that are of importance for carrying out business activities in a sustainable manner has also an educational value. This is because an organisation that prepares such reporting can identify flaws in its corporate governance and take steps to improve it.

6. Recommendations for the organisation of corporate governance at a microeconomic level

Taking the foregoing into consideration, one may be tempted to formulate some recommendations, as a kind of indicator for improving the areas of corporate governance in business organisations, the verification of which at this historic moment of sustainability reporting in the EU is of primary importance and at the same time seems to be feasible in a relatively quick manner.

Recommendation No. 1

A key factor in the area of corporate governance, which determines whether a company will be able to manage environmental and social risks, is the composition of its management board, supervisory board or board of directors. The management board is responsible for managing the company's risks, including environmental and social risks. If board members do not have necessary experience and skills, they will not be able to manage such risks. If the entity's management board and supervisory board, or board of directors, do not share concerns about environmental and social risks, corporate governance will not be effective in overseeing those risks. If members of these bodies do not understand the company's operations sufficiently and its exposure to environmental and social risks, the management board will not be able to effectively manage these risks. If the management board is made up of members who have the same, non-diversified

backgrounds, the importance of environmental and social risks may even be overlooked or underestimated. And if the supervisory board members or directors (especially those other than the management board members) devote insufficient time to their supervisory duties, effective environmental and social risk management will be challenged.

Recommendation No. 2

An important role in the management of environmental and social risks can be played by specially established committees, to which tasks related to the supervision of certain aspects in selected risk areas can be delegated, regardless of the fact that the entire board of directors is responsible for overseeing the company's comprehensive risk exposure. Thus, in the context of ESG, a key decision in the area of corporate governance is whether to entrust social environmental risk issues to a specialised committee already in place and operating, or whether another committee should be established. This decision strongly relates to corporate governance and will ultimately affect the board's ability to manage environmental and social risks.

Recommendation No. 3

In order to effectively mitigate environmental and social risks, the issue of remuneration for management must also be addressed in order to provide for the right incentives to increase the shareholders' value and to simultaneously prioritise the environmental and social risk issues. It is therefore within corporate governance to promote such management practices that expose the board's responsibility for ensuring effective management of environmental and social risks. Managing these risks seems to be all the more effective the clearer the prospect of the board's dismissal if the shareholder expectations are not met.

Recommendation No. 4

The fact that more and more institutional investors recognise the importance of ESG reporting and supporting proposals from environmentally and socially sensitive shareholders is of great importance for the entity's efforts to operate in a sustainable manner. For the purpose of ensuring that management boards do not ignore such proposals that are supported by the majority of the entity's shareholders, it is necessary to incorporate into the corporate governance practices the management board policies determining a procedure for deciding on such matters and for notifying investors by the by the management board of the related activities.

Recommendation No. 5

The presentation of the entity's corporate governance organisation in the framework of the sustainability reporting (in accordance with EU standards) must not merely be a tool for legitimising the corporate governance practices that may be far from being perfect. The lack of ethics in this area means as a rule a reprehensible superficiality. Its disclosure can bring consequences that can be serious for both the company's image and finances. It is therefore in the interest of the entity's management board to take a keen interest in implementing good corporate governance practices, even if it would be required and disciplining for that board to evaluate projects undertaken in the aspect of their environmental and social impacts.

Recommendation No. 6

The introduction of mandatory sustainability reporting, which should follow certain standards, draws attention to the organisation of the internal information system in the entities subject to that obligation, the way it functions, the quality of the information provided and the costs involved. The latter are particularly important when they are caused by duplication of work, redundancy of information or inconsistency between information created in different modules of the same system. Consequently, in addition to the creation of non-value-adding costs, this can also lead to lower reliability of both external and internal reporting. The problem becomes more acute when information circulating within the entity can simultaneously be used for the purposes of externally standardised reporting (ESG) and for the purposes of internal reporting, carried out adequately to meet diverse needs of internal stakeholders. A good example of this situation concerns the issues regarding the obligation to disclose risk factors as part of external reporting and to recognise risks for the purposes of the internal risk management practices.

The ESG reporting involves the collection and processing and the maintenance, especially for this purpose, of operational and other data sets and the creation of narrative descriptions, the correctness of which should be reflected in the entity's practices. There is no doubt that reporting is a cost driver at the entity and an opinion maker in its environment, which is of significance for its financial performance. It is therefore important the information reported casts no doubt. The requirement of corporate governance for transparency of information sources relating to the 'E' and 'S' reporting and of the introduction of order in the entity's information system is therefore justified. This is because, the adoption of different sources of information for the 'E' and 'S' areas, i.e., different ones for internal management purposes and different ones for external ESG reporting may lead to information being inconsistent in a given area, and to discrepancies in risk assessments, and also to manipulation

of assessments of the entity's stakeholders, including its shareholders. And beyond all that, it can also be considered a sign of mismanagement of the entity's resources.

A clear message in corporate governance, especially now, i.e., during the implementation of the sustainability reporting obligation, as to the quality of information sources related to it is particularly important. It can anticipate many risk factors, the occurrence of which can be effectively prevented at the stage of preparation of reporting information.

Summary

The two issues outlined above, namely the corporate governance principles formulated by the OECD with the intention of global coverage, and the standardisation within the EU of reporting information on it, are of a complementary nature. It is not possible to discuss these issues in detail herein, but nevertheless, even their synthetic overview makes it possible to note how wide the spectrum is of areas, relations and activities which are covered by the definition of 'corporate governance', and which require in practice an institutionalised implementation at a macroeconomic scale and then a systemic implementation at a microeconomic scale.

The purpose hereof was not to discuss academic definitions or models of corporate governance, nor to prepare a cross-sectional and historical presentation of (various non-OECD) institutions that have been active in the area of developing framework guidelines for such governance. The focus on the OECD was not accidental. After all, the OECD countries and key partners represent approximately 80% of global trade and investment, and furthermore, the corporate governance guidelines are relevant to the economic order in our country as well, since Poland is one of the OECD members. These two facts, juxtaposed with the wording of corporate governance imperatives are to indicate the role and responsibility of institutions and various other organisations responsible for the security of economic transactions in various jurisdictions of the OECD countries. They also raise awareness of the importance of overcoming implementation difficulties in this area. The problem of reporting corporate governance information in accordance with the ESG reporting principles, on the other hand, served here to determine in a holistic manner the responsibility that lies with economic organisations.

In light of the above, and especially in view of the fact that both issues are extremely current (due to their importance and the fact of the sanctioning of important documents for them in 2023), it should be stated that a reliable assessment of the status quo of corporate governance in Poland is absolutely necessary, as a scientific diagnosis is urgently needed as to which elements of the national system defining the framework of such governance on a macroeconomic scale require improvement. This is a primary issue at this scale. It is hoped here that a review of national

solutions in the context of the latest OECD guidelines, which are referenced and outlined herein in their current wording, may be helpful in dealing with this diagnosis. On the microeconomic scale, on the other hand, the priority is to review the existing corporate governance practices in individual economic organisations. Here, too, diagnoses of the status quo of corporate governance are necessary. Their framework is determined, as a kind of benchmark, by a sustainability reporting standard dedicated to the conduct of business activities and, within it, corporate governance. And here, too, it is hoped that the approximation of this problem at a very historical moment from the perspective of the development of business entity reporting, and the recommendations presented herein will prove useful.

Reference materials

Farooq SU, Ullah S., Kimani D., *The Relationship between Corporate Governance and Corporate Social Responsibility (CSR) Disclosure: Evidence from the USA, Abasyn* University Journal of Social Sciences, 2015, 8(2).

Glen P., Cygler M., Dąbrowski M., Flig K., Jastrzębska E., Karmańska A., Lipski M., Lulewicz-Sas A., Ocicka B., Pietrzak M., Rogowski W., Stanek-Kowalczyk A., Ziółkowska M., *Zrównoważony rozwój a ESG – uwarunkowania, wyzwania, dobre praktyki.* [*Sustainable Development versus ESG – Determinants, Challenges and Good Practices.*] [in:] Raport SGH I Forum Ekonomicznego 2023 [Report of the Warsaw School of Economics I Economic Forum 2023], Publishing House at the Warsaw School of Economics, 2023, pp. 312–349.

Havel B., Lasak J., Pihera V., Stenglova I., *Czech Corporate Governance in the Light of its History and the Influence of the G20/OECD Corporate Governance Principles*, European Business Organization Law Review (2023) 24:167–200, https://doi.org/10.1007/s40804-022-00253-3.

Hejduk I. Karmańska A., *Corporate Performance Reporting within Sustainability Concepts*. [in:] Proceedings of The Twenty-Eighth Asian-Pacific Conference on International Accounting Issues, Maui, Hawaii, U.S.A., 2016.

Hejduk I. Karmańska A., *Corporate Performance Reporting within Sustainability Concepts: Hybrid Performance.* [in:] Hybridization in Network Management, [ed.]: A. Jabłoński, Series: Business Issues, Competition and Entrepreneurship, Nova Science Publishers, January 2019.

Herdan A., Stuss M., Krasodomska J., *Audyt wewnętrzny jako narzędzie wspomagające efektywny nadzór korporacyjny w spółkach akcyjnych* [*Internal audit as a tool supporting effective corporate governance in joint stock companies*], Jagiellonian University Publishing House, 2009.

Ibrahim, H., & Zulkafli, A. (2016). *Corporate governance, HRM practices and organizational performance. Socio-Economic Problems and the State*. 14 (1), 30–40.

Iglesias, T. M. G., Silva. T. D., Jesuka, D., & Peixoto, F. M. (2022). *Reflections of corporate governance on pay-performance sensitivity: A new perspective. Revista de Administraęao Mackenzie*, 23(1), 1–26. doi:10.1590/1678–6971/ eRAMF220088.

Murtaza S., Habib A., Khan A. *Do ownership and board characteristics enhance firm performance? A corporate governance perspective*. J Public Affairs. 2021;21:e2515. https://doi.org/10.1002/pa.2515.

Oana M., Timea M., *Corporate governance – key factor to enhance performance*, Knowledge Horizons – Economics, 2015, Volume 7, No. 4. P-ISSN: 2069-0932, E-ISSN: 2066-1061.

Legislation and guidelines

*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 Text with EEA relevance (*Official Journal of EU 2014, L 330/1*).*

*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 (*OJ L 322/15*).*

Exposure Draft ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information, 2022 IFRS Foundation, www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf [accessed: July 2022].

European Sustainability Reporting Standard (draft, November 2022) – ESRS G1 Business Conduct, www.efrag.org [accessed: January 2023].

OECD (1999), *OECD Principles of Corporate Governance*, OECD Publishing, Paris, https://doi.org/10.1787/9789264173705-en, part one, [accessed: July 2022].

OECD (2004), OECD *Principles of Corporate Governance 2004,* OECD Publishing, Paris, https://doi.org/10.1787/9789264015999-en, [accessed: July 2022].

OECD (2015), *G20/OECD Principles of Corporate Governance*, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264236882-en [accessed: July 2022].

OECD (2021), *The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis, Corporate Governance*, OECD Publishing, Paris, https://doi.org/10.1787/efb2013c-en [accessed: July 2022].

OECD (2021), *OECD Corporate Governance Factbook 2021*, OECD Publishing, Paris, https://doi.org/10.1787/783b87df-en, www.oecd.org/corporate/corporate-governance-factbook.htm [accessed: July 2022].

OECD (2022), *OECD Secretary-General's Second Report to G20 Finance Ministers and Central Bank Governors on the Review of the G20/OECD Principles of Corporate Governance*, Indonesia, July 2022, OECD, Paris, www.oecd.org/corporate/oecd-secretary-general-report-G20-FMCBG-review-G20-OECD-principlescorporate-governance-2022.pdf, [accessed: July 2022].

OECD (2023), *G20/OECD Principles of Corporate Governance* (*2023*, OECD) Publishing, Paris, https://doi.org/10.1787/ed750b30-en, [accessed: October 2023].

Review of the G20/OECD Principles of Corporate Governance – OECD, [accessed: October 2023].

Commission Delegated Regulation (EU) (2023), Commission Delegated Regulation (EU) .../.... of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council with regard to sustainability reporting standards, C(2023) 5303 final, Annex 1 – European Sustainability Reporting Standards (ESRS). European Sustainability Reporting Standards Adopted – Ministry of Finance – Gov.pl Portal (www.gov.pl)[accessed: December 2023].

Other sources

About the FSB. www.fsb.org [accessed: July 2022].

Climate Disclosure Standards Board. www.cdsb.net [dostęp: lipiec 2022]

Climate Disclosure Standards Board. www.cdsb.net [accessed: July 2022]

Why ESG? Why now? Key Element of Resilient Strategy, Sustainability Insights 4/2020, https://www2.deloitte.com/pl/pl/pages/zarzadzania-procesa- mi-i-strategic/articles/sustainability-insights/why-esg.html [accessed: July 2022].

EFRAG welcomes the adoption of the Delegated Act on the first set of European Sustainability Reporting Standards (ESRS) by the European Commission, https://www.efrag.org [accessed: November 2023].

IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements, https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/ [accessed: July 2022].

Ład korporacyjny istotny dla profesjonalistów [Corporate Governance for Professionals], https://cfapoland.org/aktualnosci/211,lad-korporacyjny-istotny-dla-profesjonalistow.html/ [accessed: November 2023].

SGH and Economic Forum 2023 Report, Karpacz, September 5–7, 2023 , What's in the SGH and Economic Forum 2023 Report – ECONOMIC FORUM (forum-ekonomiczne.pl), [accessed: November 2023].

Reports on the Observance of Standards and Codes – ROSCs www.imf.org/en/Publications/rosc [accessed: July 2022]..

Sustainability Accounting Standards Board. www.sasb.org [accessed: July 2022].

The Commission adopts the European Sustainability Reporting Standards (europa.eu) [accessed: July 2022].

The global leader for impact reporting, https://www.globalreporting.org/ [accessed: July 2022].

The Task Force on Climate-related Financial Disclosures (TCFD). https://www.fsb-tcfd.org/ [accessed: July 2022].

Value Reporting Foundation (VRF). https://www.valuereportingfoundation.org/about/ [accessed: July 2022].

W jaki sposób raportowanie może pomóc w walce ze zmianami klimatu? [How can reporting help in the fight against climate change?] Znaczenie danych ESG i zmiany w zakresie obowiązkowych ujawnień spółek. [Significance of ESG data and changes in mandatory company disclosures.] https://www2.deloitte.com/pl/pl/pages/zarzadzania-procesami-i-strategiczne/articles/w-jaki-sposob-raportowanie-moze-pomoc-w-walce-ze-zmianami-klimatu.html [accessed: July 2022].

Who we are, https://www.cdp.net/en/info/about-us [accessed: July 2022].

ISSN 2957-1839
www.pana.gov.pl