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Supporting sustainable development (ESG) through the EFQM 2020 business excellence model

Abstract

The concept of sustainable development includes a set of activities that constitute a holistic vision of development, which is a balance of environmental, social and economic dimensions. Business excellence models are tools that can support organizations in implementing the principles of sustainable development and serve to evaluate this process. However, these models are not always characterized by an integral approach, i.e. taking into account all three aspects mentioned. The aim of the article is to analyze the EFQM (2020) model in terms of its reflection of ESG sustainable development factors included in the European reporting standards (ESRS) and to propose possible modifications to the model. These changes should make it easier for organizations to orient themselves towards implementing sustainable practices in their operations.

Keywords: sustainability, ESG, European reporting standards (ESRS), excellence models, EFQM
JEL Classification: L2, M3

Introduction

Taking care of humanity's needs in a sustainable way, considering both the environment and the future of coming generations, is becoming one of the most pressing challenges for the entire economy and all its participants. The principle of sustainable development was established in 2015 by the United Nations, which adopted the 2030 Agenda for Sustainable Development and defined 17 Sustainable Development Goals (SDGs).

The 2030 Agenda, which is a kind of a universal development strategy for the entire world, commits the global community to "achieve sustainable development in its three dimensions – eco-nomic, social and environmental – in a balanced and integrated manner". It strongly emphasizes the necessity of integrating these three dimensions as a necessary condition for sustainable development [Sagan, 2021]. The aforementioned 17 UN Sustainable Development Goals (SDGs) identify the most important challenges of our time in 5 areas: people, planet, prosperity, peace and partnership. The concept of sustainable development (as expressed in the SDGs) thus proposes a set of actions that make up a holistic vision of development, being a balance of all its dimensions: environmental, social and economic. Achieving all these goals will require a profound transformation of both individual companies and entire economies.

Corporate sustainability initiatives, that is, environmental protection, social governance and corporate governance, and the reporting regulations that accompany them, are expressed in the concept of ESG, which is an evolutionary development of the idea of Corporate Social Responsibility (CSR) [Misztal, 2023, Roselle, 2016]. It is described by the first letters of the English names of the factors: environment (Environment), social responsibility (Social Responsibility) and corporate governance (Corporate Governance) [Costa et al., 2022; Li et al., 2021]. ESG thus refers to measurable factors that define the non-financial parameters of companies' operations that directly or indirectly affect their business and the environment in which they operate. Factors show how a company uses the environment, how it relates to society, and its corporate governance practices, thus reflecting an entity's commitment to achieving balanced development [Ślażyńska-Kluczek, Brzezek, 2023].

Tools that can support organizations in implementing sustainability principles and serve to evaluate this process are Business Excellence Models (BEMs), as they usually relate in some way to the concept of sustainability [Aryanasl et al., 2016; Politis, Grigoroudis, 2022]. However, these models are not always characterized by an integral approach, i.e. taking into account all three aspects: environmental, economic and social [Jankalová, Jankal, 2018]. The purpose of this article is to analyze the EFQM (2020) model in terms of its reflection of the ESG sustainability factors included in the European Reporting Standards (ESRS), and to propose possible modifications. These modifications should make it easier for organizations to orient themselves towards implementing sustainable practices in their operations. The choice of the EFQM 2020 model was dictated by the fact that although the relationship between this model and sustainable development has been analyzed by many authors [Asif et al., 2011; Aryanasl et al., 2016; Calvo-Mora et al., 2018; Evans et al., 2017; Edgeman & Eskildsen, 2023; Medne et al., 2020], these were limited to earlier versions of the model (from 2013), and furthermore, referred to ESG factors in very general terms, not necessarily those covered by the reporting obligation under the EU CSRD.

Literature review

ESG sustainability factors

In order to measure and describe the impact of companies on the environment in terms of ESG factors, a number of different indicators have been developed along with regulations related to reporting and adapting to subsequent changes. To date, the most popular standard used worldwide for the preparation of sustainability reports to date is the GRI Standard, introduced by the Global Reporting Initiative [Halkos, Nomikos, 2021]. This situation will change in the next 2–3 years among European Union countries, where the CSRD (Corporate Sustainability Reporting Directive), aimed at strengthening the legal framework for sustainability reporting, has already started to take effect. The CSRD requires companies to disclose sustainability information in accordance with the emerging European Sustainability Reporting Standards (ESRS). For the time being, this applies to large domestic companies and multinational corporations (with more than 500 employees and net turnover more than EUR 40 million), but every year the obligation to report sustainability practices will apply to more and more organizations – in the next few years it will cover almost all companies, including SMEs (from 2025 companies with more than 250 employees, net turnover more than EUR 40 million, and from 2026 companies with more than 10 employees, net turnover more than EUR 700 thousand). This means that companies will have to include environmental, social, human rights and corporate governance issues in their financial reports, which may have a significant impact on the way they do business [Wytyczne do raportowania ESG, 2023].

The CSRD, and indeed the European Reporting Standards (ESRS) that follow the directive, will allow all stakeholders to gain broad access to comparable, reliable and high-quality data on how the sustainability is being implemented in companies. For stakeholders, this will be an additional tool to influence business entities (e.g., those operating in their local community), while for companies it will be an opportunity to demonstrate their social responsibility, but also to better manage risks, achieve savings through more efficient use of energy and other resources, or attract new customers [Wytyczne do raportowania ESG, 2023]. A summary of the benefits to companies of good, or proactive, ESG management is shown in Table 1.

The ESRS, or European Reporting Standards, will be published in stages in 2023 and 2024. The first set of ESRS has already been published and consists of two cross-cutting standards (ESRS1 and ESRS2) and 10 thematic standards covering environmental (ESRS E1-E5), social (ESRS S1-S4) and corporate governance (ESRS G1) issues. These standards will also be gradually expanded – the adoption of so-called sectoral standards, as well as standards for SMEs and non-EU companies, is expected. The architecture of the current ESRS standards is shown in Figure 1.

Table 1. Consequences of good and poor ESG management

Area	Proactive ESG management	Weak ESG management
Risk Management	• Better preparation for risk management • Better long-term financial planning	• Compliance costs, regulatory fines and penalties • Higher risk of incidents, scandals
Operating results	• Savings resulting from more efficient use of energy and other resources • Lower labor turnover and higher employee productivity	• Higher costs due to inefficient processes and inefficient use of resources • High employee turnover and lower productivity (higher recruitment costs) • Risk of labor disputes and work stoppages
Business opportunities	• Greater B2B opportunities (ESG criteria are increasingly one of the requirements that suppliers must meet) • Customer acquisition as a result of adding new and/or expanding existing sustainable products and services	• Loss of potential business contracts as a result of failure to meet ESG requirements • Weaker competitive position
Access to capital and financing	• Improved access to financing (debt and equity), including from long-term institutional investors • Lower costs/better financing terms	• Higher financing costs due to ESG risk premium • Loss of financing (including sale of shares in the company)
Reputation	• Higher brand value • Perception of the company as a good employer – ability to attract and retain employees • Increased customer loyalty	• Loss of clients due to poor ESG practices or ESG scandals • Difficulties in attracting talents • Pressure from NGOs
Stakeholder engagement	• Better understanding of the needs and expectations of stakeholders • Better relations with investors	• Risk of protests by local communities • Poor ESG rating of the company and its negative impact on investors' evaluation of the company

Source: Wytyczne do raportowania ESG, 2023.

Figure 1. Architecture of the European Reporting Standards (ESRS).

Source: Wytyczne do raportowania ESG, 2023.

Table 2 Thematic coverage of ESRS standards

Standards	Thematic coverage
ESRS1 – General requirements	Defines the general requirements that reporting companies must follow under the ESRS – a conceptual framework that explains key reporting principles and concepts.
ESRS2 – General disclosure of information	It defines cross-cutting disclosure requirements. This includes the company's general characteristics, a description of its business model, strategy and management structure, as well as an assessment of the materiality of its sustainability impacts, risks and opportunities, and its sustainability due diligence process.
ESRS E1 – Climate change	Disclosure of information related to: • Mitigating climate change • Adaptation to climate change • Energy
ESRS E2 – Pollution	• Pollution of air, water, soil, living organisms and food resources • Substances of potential concern • Microplastics
ESRS E3 – Water and marine resources	• Water consumption and intake • Water discharges • Utilization of marine resources
ESRS E4 – Biodiversity and ecosystems	• Loss of biodiversity • Impact on the status of species • Impact on ecosystems
ESRS E5 – Resource utilization and the circular economy	• Use of resources • Waste
ESRS S1 – Employment (own employees)	• Working conditions • Occupational health and safety • Workforce diversity and inclusiveness • Development and training • Human rights
ESRS S2 – Employees in the value chain	• Human rights • Counteracting negative influences on employees • Increasing positive influences
ESRS S3 – Affected communities	• Local communities • Indigenous peoples
ESRS S4 – Consumers and end users	• Privacy • Product quality and safety • Responsible marketing practices • Access to products and services
ESRS G1 – Conducting business	• Corporate culture and responsible business conduct • Corruption and bribery • Political influence and lobbying activities • Supplier relations and payment practices • Security and data protection

Źródło: Wytyczne do raportowania ESG, 2023.

The cross-cutting standards i.e. ESRS1 (General Requirements) and ESRS2 (General Disclosure) set out the general requirements that companies should follow when preparing sustainability reports. As the name suggests, they apply at a general level to all sustainability issues. The thematic standards, on the other hand, are divided into environmental, social and corporate governance. The disclosure requirements are not sector-specific, which means they apply to all companies, regardless of the industry in which they operate. In terms of structure and content, all thematic standards follow the same four-pillar approach, which includes governance, strategy, impact, risks, and indicators and targets. The indicators included in the standards are largely based on GRI. The thematic scope of each standard is shown in Table 2.

Environmental factors include greenhouse gas emissions, the amount of energy from renewable and non-renewable sources, water consumption, the amount of waste produced, and the impact of the company's operations on biodiversity. Social factors, in turn, show how a company treats its employees (its own and those employed in the value chain) and how its activities affect local communities, suppliers, business partners and customers. Factors related to own employees concern working conditions, ensuring equal pay, diversity policies, work-life balance and respect for human and worker rights. External factors mainly concern maintaining fair and transparent relations with the local community and supply chain partners (including ensuring that they respect the human rights of their employees) and the impact of the company's products on customers and end users (product quality and safety, responsible marketing).

The third area of ESG focuses on corporate governance, that is, issues related to the conduct of business, such as business ethics, corporate culture, political influence (including lobbying activities), and supplier management and payment practices (especially late payments to SMEs). It evaluates the standards, procedures and mechanisms in place to ensure the company's efficient operation and effective risk management. In corporate governance, which is a form of internal oversight system of the company, it is important to comply with laws, and to respond to the needs of stakeholders and investors.

So what does a company's sustainability orientation mean? We can assume that sustainability orientation is the degree to which organizations actively integrate sustainability principles into their business goals [Jin et al., 2019], and also as a commitment to integrate social and environmental concerns into decision-making [de Menezes et al., 2021].

Business Excellence Models (BMEs)

The prevailing view in organizational management is that only a strategic approach coupled with self-knowledge and change management can guarantee of consistency in an organization's activities. Hence, the concept of excellence is an example of a systems approach in management, which is created in accordance with the evolution of the external environment and at the same time is considered a contemporary way to achieve excellence. Consequently, one can observe a shift from quality to excellence. This has led to the development of business excellence models, among which the three most important are the Malcolm Baldriga model, the Deming model and the EFQM model. In this article, the authors focus their attention on the most popular model in the world today, the EFQM. This model is a business excellence framework designed to guide an organization's business strategy and continuous improvement.

The model was developed in 1991 with the support of experts representing the business and academic communities. It was first used in 1992 in the European Quality Award to support the evaluation of organizations. The model is based on a set of values expressed in the Charter of Fundamental Rights of the European Union, the European Convention on Human Rights (1953) ratified by 47 member states of the Council of Europe and incorporated into national legislative systems, and the European Social Charter (revised in 1996). The second pillar underpinning the model is support for the UN Sustainable Development Goals (SDGs) and respect for the 10 principles of the UN Global Compact [EFQM Model, 2021].

A huge group of experts (nearly 2,000 experts and change leaders from 60 different organizations around the world) was involved in creating the latest version of the EFQM model. The current model (2020) is designed to combine strategic focus, operational focus and results orientation. This approach recognizes that no organization operates in a vacuum and that it is part of a complex ecosystem that can help or hinder its growth. On the other hand, it understands that it must address the increasing pace and scale of change by taking management actions in the present while being prepared for the challenges of the future.

The EFQM Excellence Model is a comprehensive and advanced tool. Rather than recommending single methods for improving an enterprise, it covers all the most important areas of an organization's functioning and determines what requirements should be met in these areas. By providing a holistic view of the organization, it can be used to determine the degree of integration and complementarity of the methods and tools used in management. For this reason, the model can be used in conjunction with any number of tools, depending on the needs and functions of the organization, as a framework that binds together all activities leading to sustainable excellence.

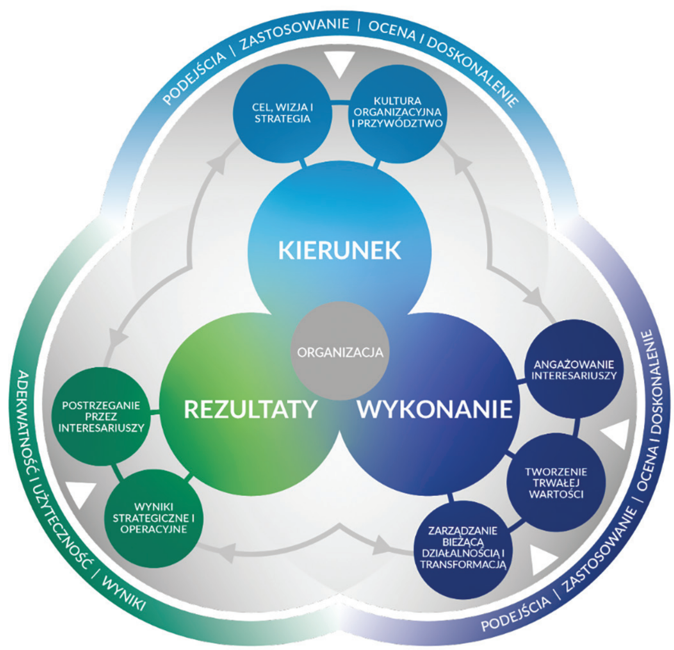
As a practical tool, EFQM does not impose ready-made solutions, but rather enables organizations to assess where they are on the path to excellence and to understand their key strengths and potential areas for improvement in relation to the established vision and mission. In this way, the model serves as both a comprehensive self-assessment tool and a model of excellence to strive for by taking appropriate action in each of the highlighted areas. Self-assessment makes the organization aware of its strengths and allows it to identify areas for improvement. The EFQM model was created to recognize and promote sustainable success and to provide guidance to those who wish to achieve it. This goal is achieved through the three integrated components that make up the EFQM excellence model. They are as follows:

- Fundamental principles of excellence: principles that provide the necessary foundation for any organization to achieve sustainable excellence.
- Criteria of the EFQM Excellence Model: a structure to help organizations put the core principles into practice.
- RADAR Logic: a dynamic assessment model and powerful management tool that provides a foundation to support an organization in dealing with the challenges it faces as it begins to take steps toward achieving sustainable excellence.

Although the content (and graphics) have changed in the latest version of the EFQM model, the basic principles on which the model is based have remained the same. It continues to emphasize the leading role of issues such as the importance of the customer, the need for a long-term stakeholder orientation, and an understanding of the cause-and-effect relationships between the chosen course of action, the way it is implemented and the results achieved [EFQM Model, 2021]. Central to the EFQM Model is the relationship between an organization's purpose and strategy and how it creates sustainable value for its key stakeholders and achieves outstanding results. The basic structure of the EFQM Model has been completely revised (Figure 3) – it is now based on three main areas, seven criteria and 32 sub-criteria. Each sub-criterion contains a set of detailed guidelines to be followed in managing an organization. The structure of the EFQM Model is based on the simple logic of asking three following questions:

- "Why" does the organization exist? What is its purpose? (DIRECTION area)
- "How" does the organization intend to fulfill its purpose and strategy? (EXECUTION area)
- "What" has the organization achieved so far? What does it intend to achieve in the future? (RESULTS area)

Figure 3 Structure of the EFQM 2020 model



Source: EFQM Model, 2021.

The layout, which includes three key sections and seven main criteria, is undoubtedly a positive and radical change – it is more logical and simpler compared to the 2013 EFQM model [Nenadál, 2020].

Research procedure

The method used in this study is exploratory in nature, based on a literature review and an investigation of the adaptability of the EFQM Model of Excellence [2020] to ESG sustainability factors. A comparative analysis of two relevant documents describing the EFQM Model [EFQM Model, 2021] and ESRS reporting guidelines in line with the CSRD [Wytyczne do raportowania ESG, 2023] was used. The article seeks to answer the research question (RQ): Has sustainability orientation actually been broadly integrated into EFQM 2020 sufficiently for organizations to use it to implement sustainable practices – consistent with ESG reporting requirements – in their operations? Due to the nature of the research question, a qualitative analysis was used, supported by a content analysis of the EFQM 2020 model, ESRS guidelines and research papers identified in the literature review. Articles used in the literature review were identified using SCISPACE.

Models of excellence as a tool for promoting sustainable development

Although the issue of sustainability has been present in the public debate for more than two decades and has received increasing attention from managers, to date no international standards for comprehensive management systems for corporate sustainability have been developed to facilitate its implementation [Asif et al., 2011]. However, proposals for such models have appeared in the literature [Edgeman, Eskildsen, 2023; Jabnoun, 2020]. Some companies (e.g., Siemens) have developed their own sustainability standards for this purpose, while others simply use business excellence models such as national quality awards (e.g., Baldrige National Quality Award – BNQA) or EFQM. Such models have the potential to contribute to increased organizational sustainability by promoting innovation and incorporating sustainability aspects into their evaluation criteria, but few of them demonstrate an integral approach that takes into account all aspects: environmental, economic and social [Edgeman, Eskildsen, 2023]. Moreover, they are accused of prioritizing economic issues [Asif et al., 2011; Jabnoun, 2020]. On the other hand, it is important to remember that organizations using the EFQM excellence model engage in sustainability entirely voluntarily and to varying degrees – some focus on social responsibility, while others focus on the environment, processes or employee well-being [de Menezes et al., 2021]. As already emphasized, the model does not impose any ready-made solutions in this regard, but rather allows for multiple approaches to achieving sustainable excellence in all aspects of an organization's operations.

There has been an ongoing debate for some time regarding whether business excellence models (BEMs) such as EFQM are able – or flexible enough – to respond to the needs of multiple stakeholders with different requirements, and therefore whether they can effectively support organizations in implementing sustainable development [Aryanasl et al., 2016; Asif et al., 2011; de Menezes et al., 2021; Edgeman, Eskildsen, 2023; Jankalová, Jankal, 2018; Jankalová, Jankal, 2020; Medne et al., 2020; Politis, Grigoroudis, 2022]. Researchers generally agree that business excellence models, especially the EFQM model, have the potential to help organizations implement sustainable development. By applying institutional pressure and disseminating best practices, these models can help organizations implement sustainability practices [de Menezes et al., 2021]. Therefore, it can be concluded that quality or excellence awards are certain institutional factors stimulating continuous improvement. The underlying expectation is that top-level (rare) awards will become models of excellence and will trigger an imitation process in which best practices are disseminated in a given sector and, ultimately, throughout the economy [de Menezes et al., 2021]. Therefore, this mimetic process therefore creates institutional pressure and reinforces the cycle of continuous improvement, so that awarded organizations are more likely to maintain their level of performance. Of course, these models need to be adapted to the specific circumstances of the organization and various aspects of sustainability need to be taken into account to ensure effective implementation. However, it is more questionable whether BEMs are appropriate as a framework for implementing, measuring and reporting overall sustainability indicators to internal and external stakeholders. Overall, the effectiveness of the EFQM model in supporting sustainable development remains controversial [de Menezes et al., 2021; Sagan, 2021].

The article poses a research question regarding this very issue, namely whether the sustainability orientation has actually been incorporated into EFQM 2020 to such an extent that organizations can use it to implement sustainable practices that are consistent with ESG reporting requirements in their operational activities?

Basically, the EFQM model has included the organization's orientation towards sustainable development since its creation, but it is particularly visible in the last two versions of the model (from 2013 and 2020). Among the basic EFQM principles that the best organizations are expected to follow, the previous EFQM 2013 model very clearly emphasizes "creating a sustainable future", while the 2020 model amendment focuses on the relationship between the organization's goal and strategy and the creation of a sustainable future, values for stakeholders and achieving above-average results while taking into account the UN SDGs [Politis, Grigoroudis, 2022; Chomiak-Orsa, Martusewicz, 2023]. The support of the organization's orientation towards sustainable development through the EFQM model is based on the fact that the criteria included in the model address issues related to ESG goals, and therefore promote them among managers. In addition, the awarded organizations, i.e. those with the highest level of excellence, are examples of best practices – including those related to the implementation of ESG goals – for other companies in the industry.

However, it is worth noting, that the principles and evaluation criteria included in excellence models generally do not explicitly address social or environmental sustainability, as opposed to economic performance. When it comes to social or environmental sustainability, these models usually take a "do no harm" approach, leaving the decision on the degree and type of involvement to the companies using these models themselves [Edgeman, Eskildsen, 2023]. According to Edgeman and Eskildsen, excellence models in themselves do not help – or hinder – progress towards the SDGs, but rather help organizations in their efforts to become better, which – in a way – may manifest itself in more effective implementation of the sustainable development goals (if they decide and choose this option) [Edgeman, Eskildsen, 2023]. Currently, however, the situation is changing due to the pressure of legal regulations related to the adoption of the CRSD directive and the reporting requirement, which will apply to an increasing number of enterprises each year. Orientation towards sustainable development is no longer a voluntary choice, but is slowly but inevitably becoming a necessity for all companies.

Therefore, it is important to include ESG factors in excellence models, at least to the extent that they are included in ESRS reporting standards. Taking into account the fact that the place where the EFQM model was created is Europe, and that the latest edition of the model, like the previous ones, refers to European values (Charter of Fundamental Rights of the European Union, European Convention on Human Rights, etc.), it seems obvious that it should take into account the requirements by ESRS. It is therefore worth examining to what extent the latest EFQM model supports ESG goals. To answer this question, ESRS reporting standards, containing the most important ESG factors and the EFQM model criteria, were compiled,, and then the presence of these factors in the individual criteria of the EFQM 2020 model was analyzed. To better illustrate the results of the analysis, the table includes the final assessment of the degree of support for individual ESG goals included in the ESRS standards – from one + (very poorly reflected), to three +++ (very strongly reflected). This rating applies to each ESRS standard separately.

According to the ESRS1 and ESRS2 standards, companies are required to comply with the quality of information in their reporting (it must be valid, reliable, comparable, etc.), the dual materiality (the impact of the company on sustainability issues and vice versa – the impact of sustainability issues on the development, performance and position of the company), the value chain (impacts and risks along the entire value chain), the time horizons (short, medium and long-term perspectives) and due diligence [Wytyczne do raportowania ESG, 2023]. These requirements are addressed by a number of criteria in the EFQM model, covering all three areas: Direction, Execution and Results. Support for the ESRS1 and ESRS2 standards is visible especially in criteria 1.5 and 5.4, and outcome criteria (6 and 7). Criterion 1.5 Design and implement a governance structure and management system, highlights through its guidance that performance reporting systems should be embedded in the organization's operations to enable timely accountability and transparency in relationships with key stakeholders; Criterion 5.4 Use data, information and knowledge draws attention to the need to transform data into information and knowledge and then use it to identify potential opportunities to create further sustainable value. The principles and quality of reporting can also be related to the result criteria: 6 – relating to the perception of key stakeholders, and 7 – relating directly to the reporting of strategic and operational results through financial and non-financial indicators. To sum up, the coverage of this area in the EFQM 2020 model can be considered very good (+++).

Table 3. Presence of ESG goals in the criteria (guidelines) of the EFQM 2020 model

ESG Factor	Description	EFQM 2020 criterion	Examples of guidelines (desirable practices)	Rating
CROSS-SIDE STANDARDS – DISCLOSURE	**ESRS1 i ESRS2** • Monitoring and managing areas of impact, risks and opportunities related to sustainable development	1.1 Define Purpose & Vision [Direction]	Uses its purpose to create an aspirational vision that resonates with its stakeholders	+++
		1.5 Design & Implement a Governance & Performance Management System [Direction]	Ensures that performance and transformation management and measurement reporting systems are built into the organisation's way of working to enable timely accountability and transparency to Key Stakeholders	
		5.1 Drive Performance & Manage Risk [Execution]	Identifies risk and assesses the potential impact on the strategic priorities, the way things are executed and the desired results as well as potential opportunities	
		5.4 Leverage Data, Information & Knowledge [Execution]	Converts data into information and knowledge and uses the outcomes to identify potential opportunities for creating further sustainable value.	
		6. Stakeholder Perceptions [Results]	The degree to which the organization is perceived by its Key Stakeholders as contributing successfully to one or more of the united nations sustainable development goals and global compact ambitions	
		7. Strategic & Operational Performance [Results]	Uses both financial and non-financial indicators to help measure its strategic and operational performance	
ENVIRONMENTAL STANDARDS	**ESRS E1** – Climate change mitigation and adaptation	1.3 Understand the Ecosystem, Own Capabilities & Major Challenges [Direction]	Researches and understands the ecosystem, including megatrends, and the consequences on it of the SDG and global compact ambitions	++
	ESRS E2 – Pollution and waste	5.2 Transform the Organization for the Future [Execution]	Identifies the transformation and change needs, taking into account its purpose, strategy, sustainable value creation objectives and results and scanning its ecosystem to forecast the main challenges and opportunities for the future.	++
	ESRS E3 – Water and marine resources			++
	ESRS E4 – Biodiversity and ecosystem	5.5 Manage Assets & Resources [Execution]	Uses financial resources in a balanced and sustainable way to help ensure current success and investment in the future	++
	ESRS E5 – Resource use and the circular economy	5.3 Drive Innovation & Utilize Technology [Execution]	Evaluates and manages, based on circular economy principles, the full lifecycle of existing and emerging technologies, to maximize the benefit for all	+++
		5.5 Manage Assets & Resources [Execution]	Determines the assets and resources it no longer needs (for current or future business) and, based on Circular Economy principles, disposes of them responsibly.	

ESG Factor	Description	EFQM 2020 criterion	Examples of guidelines (desirable practices)	Rating
SOCIAL STANDARDS	**ESRS S1** –Employment: • Working conditions • Occupational Health and Safety • Workforce diversity and inclusion • Development and training • Human rights	3.2 People – Attract, Engage, Develop & Retain [Execution]	Creates an ambiance in which its people can thrive, and their well-being is supported. Adapts to the evolving needs and expectations of its current and future people, taking into account, for example, changing expectations of organizational culture & leadership, gender balance & parity, diversity & inclusion and the desired work environment. Enables its people – based on purpose, vision & strategy – to understand the need for change and to see the opportunities for further development of their knowledge and capabilities. Ensures its people are proactively guided, rewarded, recognized and cared for.	+++
	ESRS S2 – Workers in the value chain: human rights	3.5 Partners & Suppliers – Build Relationships & Ensure Support for Creating Sustainable Value	Ensures its key partners and suppliers act in line with the organization's strategy and that mutual transparency, integrity, and accountability in the relationship is established and enhanced	++
	ESRS S3 – Affected communities	1.2 Identify & Understand Stakeholders Needs [Direction]	Identifies Key Stakeholder needs and expectations, considering them within the context of the organization's own purpose and vision	+++
		3.4 Society – Contribute to Development, Well-Being & Prosperity [Execution]	Establishes, develops and maintains a relationship with the Key Stakeholders in its society, leading to mutual benefit for both the organization and its society.	
	ESRS S4 – Impact on consumers and end users	3.1 Customers: Build Sustainable Relationships [Execution]	Maintains a relationship with its customers during all stages of Creating Sustainable Value, even in those phases where there is no ongoing value creation.	+++
		4.1 Design the Value & How it is Created [Execution]	Designs the value and the value creation approaches to reflect their lifecycle in a responsible way, considering impacts on public health, safety and the environment.	
		4.3 Deliver the Value [Execution]	Delivers sustainable value, as promised, through its portfolio of products, services and solutions and by meeting or exceeding the needs and expectations of its target groups	

ESG Factor	Description	EFQM 2020 criterion	Examples of guidelines (desirable practices)	Rating
CORPORATE GOVERNANCE STANDARDS	**ESRS G1 – Business practices:** • Corporate governance • Corporate culture and responsible business conduct • Corruption and bribery • Political influence and lobbying activities • Supplier relationships and payment practices • Security and data protection	1.5 Design & Implement a Governance & Performance Management System [Direction]	Designs and implements a governance and performance management system that aligns with its aspirations and addresses the strategy, developments in the ecosystem, own capabilities and major challenges	+++
		2.1 Steer the Organization's Culture & Nurture Values [Direction]	Expresses and promotes concern for the environment and the scarcity of resources, raising awareness of the importance of adopting a responsible approach to the environment.	
			Demonstrates the desired behaviors for acting ethically, with integrity and a social conscience, making sure its people demonstrate these desired behaviors in their own actions.	
		3.5 Partners & Suppliers: Build Relationships & Ensure Support for Creating Sustainable Value [Execution]	Builds a trusting relationship with its Key Partners and Suppliers to support the objective of Creating Sustainable Value. Ensures its Key Partners and Suppliers act in line with the organization's strategy and that mutual transparency, integrity, and accountability in the relationship is established and enhanced	
		5.1 Drive Performance & Manage Risk [Execution]	Develops and implements plans to manage risk from different perspectives such as cultural, strategic, operational, financial, legal, regulatory, societal and technical (including risks from IT and cyber security challenges) dimensions	

Source: own study.

Environmental standards include five elements (ESRS E1 – ESRS E5) and, as the analysis shows, they are also supported by the criteria of the EFQM model, although not as strongly and unambiguously as in the case of cross-sectional standards. These five environmental standards address different aspects of the natural environment: climate, pollution, water, biodiversity and resource use. The analysis presented in Table 3 shows that none of these standards is directly addressed in the EFQM model when considered separately. Many different criteria of the model generally refer to the issue of environmental protection and the need to reduce the negative impact of the company's activities (e.g. criteria 1.3, 5.2, 5.5), but they do not explicitly mention climate, pollution or water. The exception is the ESRS E5 standard regarding the use of resources and the circular economy, which is directly reflected in the criteria 5.3 – Manage innovation and use technology and 5.5 – Manage assets and resources (i.e. the practice of managing the full life cycle of technology based on circular economy principles, and the responsible disposal of assets and resources that the company no longer needs). Overall, the reflection of environmental standards in EFQM 2020 can be assessed as good (++).

Social standards, in turn, consist of four elements (ESRS S1 – ESRS S4), covering the impact on employees and those in the value chain, local communities and consumers. In this area, the situation is different for individual standards. The ESRS S1 standard for employing employees is reflected almost 1:1 in criterion 3.2 People – Attract, Engage, Develop & Retain, which indicates all practices included in the standard, including working conditions, occupational health and safety, diversity and inclusion, development and training, and human rights. In the case of the ESRS S2 standard, which applies to value chain employees, there is no such direct reference. It is true that there is a criterion in the model that concerns stakeholders – 3.5 Partners and Suppliers: Build relationships and provide support to create lasting value (which indicates that the company should ensure and strengthen mutual transparency, honesty and accountability in relations with key partners), but it concerns aspects of cooperation and value creation rather than ensuring that human rights are respected in their factories. The ESRS S3 standard, i.e. Communities Affected, is again well reflected in the model criteria: 1.2 Identify and understand stakeholder needs and 3.4 Society: Contribute to development, well-being and prosperity. The ESRS S4 standard – Impact on consumers and end users is, in turn, is reflected in three criteria of the model: 3.1 Customers: Build lasting relationships, 4.1 Design value and how to create it, and 4.3 Deliver value. Overall, the presence of ESRS social standards in the EFQM model criteria should be assessed very positively (+++).

The latest ESRS G1 standard concerns corporate governance, i.e. business practices in the field of management, organizational culture, policies regarding corruption, lobbying, supplier payment practices and data security and protection. In fact, all of these issues – perhaps with the exception of anti-corruption and lobbying policies – are referenced in the criteria of the EFQM model (2.1, 3.5, 5.1), and therefore this area supports the ESRS G1 standard very well (+++).

Summary

The latest EFQM model (from 2020) places a slightly greater emphasis on sustainability than the previous model (from 2013) [Fonseca, 2022]. The introduction to EFQM 2020 highlights the importance of sustainability by including the UN Sustainable Development Goals (SDGs) in its criteria, and addressing sustainability issues throughout the model. This is manifested, among other things, by:

- declaration of principles that guided the creation of the new version of the model, which refer to both the European Convention on Human Rights, the United Nations Global Compact [2000], and the 17 UN Sustainable Development Goals (SDGs)
- emphasizing the role of broadly understood stakeholders and the need to build lasting relationships with customers and business partners, based on fair treatment and the co-creation of sustainable value intended to bring mutual benefits
- paying attention to the sustainable management of the organization's assets and resources to support the circular economy
- focusing on taking care of your own employees and building a culture that highlights ethical, honest behavior and social sensitivity promoting responsibility for the natural environment

According to some authors, the EFQM 2020 model takes into account the issue of sustainable development to such an extent that organizations can use it to measure progress in achieving sustainable development goals [Fonseca, 2022]. This article attempts to answer the question of whether the orientation towards sustainable development has been integrated into EFQM 2020 to such an extent that organizations can use it to implement sustainable practices consistent with ESG reporting requirements in their operational activities. The analysis shows that ESG factors, i.e. criteria and requirements related to sustainable development included in the European ESRS reporting standards, are present in every dimension of the EFQM 2020 model (i.e. Direction, Execution and Results), and in most criteria, but to a different extent. Some ESG factors are represented exhaustively in specific criteria, while others are not addressed directly, but indirectly, or are scattered across several different criteria.

It seems that the dimension where the EFQM business excellence model should be better adapted to address sustainability is the environmental dimension. ESRS standards focus on the impact of an organization's activities on the natural environment and natural resources. The assessment of factors subject to reporting includes climate risk management (including greenhouse gas emissions), waste, energy and water consumption, and biodiversity protection. The EFQM model does not contain specific references to these issues; instead, many of the model's criteria contain general guidelines, such as:
"1.3 Understand the Ecosystem, Own Capabilities & Major Challenges", "an outstanding organization researches and understands the ecosystem, including megatrends, and the consequences on it of the United Nations Sustainable Development Goals and Global Compact

ambitions", or in 2.1 criterion: "2.1 Steer the Organization's Culture & Nurture Values" recommendation that organization "Expresses and promotes concern for the environment and the scarcity of resources, raising awareness of the importance of adopting a responsible approach to the environment" (Direction), or in the Execution area in criterion 5.2 "Transform the Organization for the Future" very general recommendation that an outstanding organization: "Identifies the transformation and change needs, taking into account its Purpose, Strategy, Sustainable Value Creation objectives and Results and scanning its ecosystem to forecast the main challenges and opportunities for the future" [EFQM Model, 2021].

It is worth noting that the concept of ecosystem appearing in the model is understood as "A fundamental principle of an ecosystem is interdependence, i.e. something that happens in one part of the system may affect other parts within the system. In the context of an organisation there are many factors external to it that affect how it operates, but over which it has no control. These can include government policy, the economic and societal make-up within its region and neighbourhoods, the prevailing religious and cultural expectations of its communities, demands for sustainability and available financing" [EFQM Model, 2021]. Therefore, it is not a direct reference to the natural environment, but to the entire set of various factors that should be taken into account when conducting business. It seems that this understanding of the ecosystem may be misleading for model users, as Nenadal has already pointed out [Nenadál, 2020].

It seems that the greatest weakness of the EFQM 2020 model is the lack (in the criteria of the Results area and in the RADAR section) of a recommended set of appropriate indicators relating to ESG factors. In the context of the obligation to report ESG factors in accordance with ESRS standards, which will soon apply to most companies, a good proposal would be to include the indicators described in individual standards in the excellence model. A decade ago, Asif made a similar proposal, which concerned the integration of BEMs and the sustainable development framework included in the Global Reporting Initiative (GRI) standards, i.e. supplementing the models with sustainability indicators included in the GRI standards [Asif et al., 2011]. Currently, such a proposal seems even more worth considering, but the indicators should be taken from ESRS (most of them come from GRI). Organizations could then use EFQM and ESRS synergistically as support tools for their sustainability program, complementing them with additional indicators specific to their type of business.

Excellence models, including the EFQM model, are undoubtedly evolving to incorporate sustainability, but further improvement is needed to ensure that BEMs fully support this concept [Politis, Grigoroudis, 2022]. The new reporting regulations provide a good opportunity to revise their criteria and guidance to more explicitly include ESG factors.

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