

# The Impact of ESG Principles on Modern Business Strategy



## Milica Mišković

CO-FOUNDER AND MANAGING PARTNER  
ESG KNOWLEDGE HUB

In this edition of our ESG Chat, we explore the growing importance of ESG principles in business, highlighting the importance of strategies for integrating sustainability into corporate models, global trends, and the challenges companies face in aligning with these evolving standards.

## ***Can you tell us more about your professional journey and what inspired you to establish the ESG Knowledge Hub? What are its key objectives and mission?***

The ESG Knowledge Hub was created to bring new value and a different approach to understanding environmental, social, and governance factors and their interaction with business models and strategies.

Regarding my professional path, after graduating from the Faculty of Economics at the University of Belgrade, I was fortunate to discover the concept of Corporate Social Responsibility (CSR), which combined my passion for business with my personal affinities. Through my work with leading companies in Serbia, gathered in the Responsible Business Forum, I had the opportunity to participate in, initiate, and implement many then pioneering initiatives.

A key moment in my professional journey happened in 2012 during the pilot project "CSR Certification," where I participated in creating and testing the methodology. This experience led to other initiatives, such as working on the introduction of the first sustainability reporting questionnaires and the first attempt to introduce a national sustainability rating, the CSR Index, in 2016.

Through collaboration with numerous partners over the years, I gained valuable experience and insights into many social challenges, and through networks like CSR Europe, EASP, and the ESG Integrated Program of the International Finance Corporation (IFC), I found ample space for personal growth and development. I felt it was time to channel what inspires and fulfills me into a new form, which is how the first projects under the ESG Knowledge Hub brand were launched. These were initiated with the help of the excellent sustainability expert Svetlana Damjanović and supported by our parent organization, Smart Kolektiv, with which we both share a long-standing working relationship.

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## ***How does the ESG Knowledge Hub help companies integrate ESG principles into their business models?***

The ESG Knowledge Hub empowers professionals within companies through various training formats, supports companies in developing sustainability strategies, assesses partners in the value chain, and assists with standardized sustainability reporting.

In addition, it turned out that training is truly needed — this year, we've conducted over ten different open and internal trainings.

We are especially proud of programs that, besides training, include our mentorship support, such as the two cycles of the ESG Practitioner program in collaboration with UNDP and RAS. We've opened a program aimed at advancing gender equality through the ESG lens, which we are implementing in partnership with GIZ. It is particularly important to me that we have made strides into new markets, helping companies based in the EU transition to reporting in line with the European Sustainability Reporting Standards (ESRS), and advising the Ministry for Economic Development and Digitization of the Republic of Moldova.

## ***How do you see the current state of development of ESG on a global level?***

ESG is a developmental and transformative issue, and, as such, it is partly political since it changes the rules of the game. Globally, it will create new "stars" on one side and new "losers" on the other, both at the company and country levels. In this sense, we can talk about two opposed contexts, such as the one in the EU and the one in the US. In the EU, there are efforts to address some of the market anomalies that led to neglecting the negative impacts of economic activities on the environment and society through accelerated regulation and influencing behavioral changes. The EU has thus initiated a chain reaction that affects all connected markets and is highly relevant to our context.

The situation in the US is different — there, we have somewhat mixed signals for companies. For example, while the US Securities and Exchange Commission (SEC) enacts regulations requiring disclosure of GHG emissions, climate risks, and transition plans, certain states are bringing anti-ESG regulations prohibiting positive discrimination based on ESG criteria investment when investing. When you add the current situation in other major world economies, things become even more complex.

A significant achievement occurred when the world came together to adopt the Sustainable Development Goals and the Paris Agreement in 2015. Unfortunately, geopolitical risks, which are highlighted in the World Economic Forum's reports, could undermine all the efforts made thus far.

Nevertheless, if we were to single out one area where there seems to be some global consensus, it would be sustainability reporting. However, there is no consensus on whether mandatory reporting should cover only sustainability risks that could harm a company's economic value or also the company's impact on society and the environment. The EU has included both perspectives in its standards, while countries like the UK, Japan, Brazil, and Singapore have taken a different approach. Globally, GRI remains the most widespread voluntary sustainability reporting standard, focusing primarily on impacts.

## ***How do you see the development of ESG in our region? How has the approach to ESG principles changed in recent years?***

When I began my career in sustainability, documents like the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights had already laid the foundations for today's EU regulations, and the application of GRI reporting methodology was in its infancy in Serbia.

In recent years, the context and understanding of ESG factors in the business community have changed. It is now much clearer that ESG can positively affect business by seizing opportunities or negatively affect it through various risks, which are most dangerous if unnoticed and unmanaged.

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As for the development of ESG in our region, despite the many experts and events, further progress, in my opinion, depends on how much it is supported systematically and whether it finds its place in public policies. Voluntary implementation in the past decade, during which I have been working in this field, has not yielded satisfactory results. As other countries introduce regulations that either encourage or restrict certain practices, there needs to be support and protection for our own economy and market. This doesn't mean burdening businesses with new requirements, but rather pointing them in the right direction, as many changes cannot be implemented quickly — especially for companies now entering new investment cycles.

I believe there is a strong need for transparent and clear criteria on what constitutes sustainable economic activity, and the entire regulatory framework should support this. Unfortunately, the popularity of this topic also carries the risk of reducing everything to manipulative marketing, favoring certain criteria while causing irreversible harm to others, and continuing to sweep many issues under the carpet.

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### ***What are the biggest challenges companies face when implementing ESG principles in our region?***

ESG requires a multidisciplinary, holistic, and above all, strategic approach — and this is a challenge for many companies. ESG relates to the entire business, and in this sense, it is essential to see the bigger picture and understand interdependencies. Many companies have good practices in certain functions, but they are disconnected — good governance ensures that these are linked.

Challenges can be numerous, starting with the different understandings of which ESG factors are crucial for a specific company, as there are no universal solutions and each company is unique due to its internal organization and the context in which it operates.

Then there are organizational challenges — adding new responsibilities to existing ones, introducing new positions, ensuring the necessary knowledge is present, evaluating when external consultants are needed, and so on. For some companies, managing various data and records, especially when they are not methodologically aligned with what is needed to set and calculate certain ESG metrics, poses a challenge.

Strengthening internal capacities at all levels is the only long-term sustainable solution, and many functions and management levels have significant space to contribute.

### ***How do you see the future of ESG standards and regulations in the next five to ten years?***

I see the adoption of EU regulations as a real turning point, which has now paved the way for future development in numerous areas, from finance to the circular economy. In the coming years, we will have the opportunity to witness the effects and learn from our experiences.

In general, the future of ESG lies in the deeper integration of sustainability into corporate strategies and decision-making, with much clearer and harmonized requirements.

### ***What are the most important metrics companies should track to ensure the success of their ESG initiatives?***

Metrics are useful for sustainability when they are tied to specific goals and actions that lead to the achievement of those goals. This sounds logical, but until now, there has often been measurement for the sake of measurement, and the data has not been genuinely useful. Fortunately, this is slowly changing as managerial bonuses are tied to achieving some of these goals, and planning is focused on longer-term horizons.

Another crucial factor that ensures success is difficult to measure but definitely felt: corporate culture. Without a culture that supports ethical behavior, responsibility, and long-term sustainability, ESG initiatives can fail.

However, not leave this question unanswered, a key metric today is the calculation of GHG emissions, as it serves as a common denominator for all company activities and forms the basis for transition plans and climate strategies.

In addition, based on current practice, companies often track and report energy consumption by source type (renewable/non-renewable), amounts of hazardous and non-hazardous waste generated, air pollution, wastewater, water consumption, resource use, and biodiversity impacts in the case of manufacturing companies.

In the governance area, metrics are related to the composition of governing bodies, representation of women in leadership positions, the number and structure of high-risk corruption jobs, the number of training sessions conducted for those positions, days of payment to suppliers (including SMEs), and instances or fines related to competition law violations.

### ***What are the most critical areas where you see a need for education and awareness-raising about ESG topics?***

At ESG Knowledge Hub, our approach is that education must be tailored to the specificities of the industry, market, certain functions, or management level, with a focus on practical application. Different levels of education are needed, ranging from those focused on raising awareness and understanding trends to those that address specific processes or topics. In this sense, we are constantly improving our programs and listening to the needs of our business sector partners.

Since transparent reporting is the essence of any serious ESG approach, one of our key training sessions, offered at both introductory and advanced levels, focuses precisely on this topic.

With the paradigm shift, various functions face challenges, so we have also assessed that corporate communication and marketing professionals need education on how to communicate about sustainability and avoid the pitfalls of manipulative marketing. Additionally, procurement functions face challenges in integrating sustainability assessments into supplier requirements.

If we are talking thematically, all topics related to decarbonization are certainly at the top of the list.

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Regarding employees, companies typically track metrics like age structure, employee retention rates, average salary, salary ranges for the highest and lowest-paid positions, workplace injury rates, days lost due to injuries, return-to-work rates after maternity leave, and the percentage of employees covered by unions, to name a few.

It would highlight climate risk assessment as a relatively young topic for many companies, hence the need for more education in this area, as well as everything related to strategies for adapting to climate change and mitigating its effects. When it comes to people, there is still much room for improvement in the implementation of principles related to gender equality, diversity, and inclusion.

***How does one balance achieving business and financial goals and ESG priorities? What advice would you give to new entrepreneurs or startups who want to integrate ESG principles from the very beginning?***

ESG is where our greatest impacts, risks, and opportunities lie. There is a higher probability that we will notice and consider risks and opportunities at some stage of planning, but it is also certain that negative impacts we don't address, which result directly from our business, will eventually come back to us like a boomerang. The only questions are when this will happen, who will solve it, and who will ultimately pay for it. To borrow a favorite saying from economists, which is applicable in this case, there is no such thing as a free lunch. Whoever ends up paying should take care of it — whether it is the owners, banks, governments, consumers, or citizens.

Now is perhaps one of the best times for the development of new ideas and innovative businesses. Maybe it's just the people I tend to meet more often, but it seems to me that some new entrepreneurs have a solid value system — they want to offer better solutions for both people and the environment, maintain fair relationships with employees and partners, and I think that's the most important thing at the start. What they can do is consider environmental and social factors when developing their business model, identify key issues, and ensure some form of monitoring and consideration when making decisions.



## About our guest

Milica Mišković is a distinguished sustainability expert with extensive experience collaborating with the business sector and working on projects related to environmental protection, gender equality, and sustainable development. Her core areas of expertise include sustainability strategy creation, standardized sustainability reporting, and capacity building through education and mentoring. Her goal is to enhance companies' understanding of their impact on the environment and society and to contribute to solutions that enable sustainable transformation of business practices.

As part of the ESG Knowledge Hub, Milica leads activities dedicated to education and consulting support, while, as a lecturer in a short study program at the University of Kragujevac, she shares her knowledge and experience with future leaders. She is an alumna of the International Finance Corporation's (IFC) comprehensive Integrated ESG program and a member of international professional associations in the field of sustainability, with significant international experience in integrating ESG factors into business strategies and public policies.



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WWW.GECICLAW.COM