

# Building a Sustainable Future: The Role of ESG in Business Transformation and Social Responsibility



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In this edition of ESG Chat, we explore how ESG factors are integrated into business, especially in the banking and financial sector. We discussed the importance of the 'Social' pillar in ESG, as well as how this aspect affects business strategy, decision-making, and the social impact of companies.

***As an expert on the “Social” aspect of ESG, please discuss the role and significance of social responsibility within the complete group of ESG issues?***

Socially responsible and sustainable business is not a new concept. Responsible companies with a clear vision and mission for the development and survival of their business have long been making additional efforts to provide added value to the community within which they operate. A strategic approach to socially responsible and sustainable development, proactive engagement with the ESG agenda, and efforts to contribute to the achievement of the UN's Sustainable Development Goals have clearly underlined the importance of synergy of different knowledge, experiences, and resources and shown that it is necessary to continuously monitor challenges, listen to needs, learn, change business practices, and join forces with other stakeholders.

Historically, social responsibility has often been discussed in the context of philanthropy, corporate giving, and volunteering. However, this is a very simplified understanding. When this is put in the context of promotion to enhance a good reputation, it has often been the case that more resources were spent for advertising purposes than were invested in the actual activity, program, or initiative. For this reason, this approach has sometimes led to a worsened reputation and negative image.

On the other hand, all players who have embraced socially responsible business the right way, strategically integrating it into all facets of their business, from corporate governance through how they create, produce, and sell their products and services on the market to establishing open two-way communication with all stakeholders, clients, employees, partners, and the entire community, listening to their needs, have built solid foundations for ethical, responsible, sustainable, and thus stable business. Such companies were prepared for the ESG - Environmental, Social, and Governance agenda.

One of the pressing issues for our society is saving the planet, so it is not surprising that there is much more talk about the E pillar of ESG. However, the S pillar, which represents society and its interests: achieving fundamental human and labor rights, as well as diversity, inclusion, equality, equity, ethics, and safety, is no less critical. Ultimately, people are at the beginning and the end of everything! It is disappointing that we are still discussing achieving fundamental human and labor rights, but that is a fact.

Therefore, We all need to work together to build a society that sets and nurtures healthy, ethical, and inclusive foundations, provides equal opportunities for all participants, and promotes diversity as a source of potential and strong possibilities. Of course, this is not always easy and simple, but it is the only correct and sustainable way.

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***How do you see the relevance of ESG factors in our region, especially in the banking and finance sector? To what extent has the approach to socially responsible business and ESG factors changed in recent years?***

Banks, as financial institutions, have always had a dual role. Like any company, banks must first take care of their own business, which is regulated not only by many laws prescribed by regulatory bodies but also by internal procedures and policies that can sometimes be even more complex, as they must also adhere to European and global standards. On the other hand, as the banking system is the lifeblood of the financial flows in the economy and personal finances, banks have the opportunity, obligation, and responsibility to influence clients, partners, suppliers, competitors, and society as a whole through their ethical, transparent, and responsible business practices in line with the ESG agenda.

The ESG agenda is the next step in developing sustainable and responsible business, which has brought more precisely defined requirements, measures, rules, and clear official regulation of responsible businesses and their reporting. The overarching goal of such planned and coordinated action of all sectors and industries is attaining a sustainable society and planet both by screening what is well defined and accomplished so far and what needs to change and improve. No business can be viewed separately, in isolation... We are all part of one system where everyone has an equally important role. As the actions and behavior of each individual can impact others, that impact can be assessed and measured through ESG metrics.

Therefore, we should view and understand the ESG agenda as an opportunity, a chance to improve ourselves and our business. Although it may seem that companies are "competing" to do things faster, better, and more, the point is that here we are all playing on the same team. The question is only when you will jump into this fast-moving train and how creative, innovative, and ready you are to tackle the challenges.

***How are social responsibility issues integrated into the strategy and processes of Erste Bank? What are the key activities of the bank in this field? Can you give us some examples of initiatives?***

Erste Bank was founded as the first savings bank in Austria back in 1819 in an attempt to solve a social problem in an entrepreneurial manner. Namely, Father Johann Baptist Weber and his followers – let's call them the social entrepreneurs of the time – set out to form an institution that would enable all members of society to fulfill all their financial needs regardless of their origin, education level, profession, etc. Thus, the first savings bank was established, which, in addition to these, immediately had an additional goal: to return part of the profits to the society that supported its establishment. Therefore, socially responsible and sustainable business has been woven into our roots and business philosophy from the beginning... A very similar history was had by Novosadska Bank, which Erste acquired in 2005, further strengthening this vision of the operation in Serbia.

Our Bank defined and implemented the first strategy of socially responsible business through six key pillars some 15 years ago: corporate governance, responsibility towards employees, responsibility towards clients, accountability in the supply chain, responsibility towards the community, and responsibility towards the environment. With a clear vision that everything we do must add value to our society, we opened two-way communication with all stakeholders: we listened to them, learned, collaborated, and changed following turbulent changes, challenges, and contemporary trends.

We were brave and were among the first to make certain breakthroughs, such as the development of social banking aimed at beginners in business, social enterprises, and civil society organizations; the development of engaged donation programs for young people on the topic of critical social issues for their local communities in collaboration with partners across the country; setting up corporate volunteering programs; from introducing recycling initiatives to starting the green transition and green banking; the development of an educational program for developing financial literacy and empowerment – ErsteZnali, and Guardians of the Dragon's Treasure for kids; strict standards and rules in accordance with sustainable development in tender processes; to raising banking operations to a higher level by developing and introducing the concept of financial health to all our clients. Among the first, we signed the UN Women's Empowerment Principles and UN Standards of Conduct for Business in the fight against LGBTIQ discrimination.

Erste is among the founding members of the UN Global Compact in Serbia, the Responsible Business Forum, the Serbian Philanthropic Forum, the National Council for Corporate Social Responsibility, etc. We shared our experiences and knowledge but also learned from others. However, the most significant benefit of these initiatives has always been the joint initiative and collaborative efforts.

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***How does ESG regulation affect operations in the banking and finance sector, especially in terms of approach to social aspects of business?***

Laws, recommendations, and frameworks exist, but challenges arise in their practical implementation. Although these change and improve following EU frameworks, this sometimes happens slowly and often does not consider the realities. Also, adequate support for implementation is often needed. Fortunately, most companies, especially those that are part of international groups and operate abroad, proactively apply even stricter ESG standards.

To begin with, I would like to touch on the social economy, the so-called good economy that supports the quality of life in the entire community by creating opportunities for everyone to meet their needs without compromising the interests of others. This economy nurtures solidarity, fair use of resources, and sustainability of ecosystems while accepting high responsibility for actions. How do we, as a bank, contribute to this topic? By providing support through our social banking to beginners who are just starting their businesses, to social enterprises resolving pressing issues in society, and by broadening and deepening the positive impact of civil society organizations fighting for the common good.

As a financial institution, we consider it one of our obligations and responsibilities to contribute to society's financial education and literacy in the broadest sense because only if we have a society that understands and controls basic economic concepts can we have a financially healthy society. That is why we strive to educate, inform, and advise our clients and the broader public so they can use all financial products, services, and instruments in the best possible way.

On the other hand, the bank, as an employer, builds and nurtures an open, inclusive corporate culture that appreciates individuals through the synergy of their uniqueness. We promote a culture that respects experience but is open to innovation and change. In our bank, more than 70% of employees are women, and 50% of top management positions are held by women, led by the first female CEO. We nurture a culture of empowerment, striving to show that a healthy work-life balance is not only possible but crucially important. We are still working on improving in the area of employing people with disabilities, which is why we have become a member of the Network of Employers who hire people with disabilities.

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### ***To what extent are ESG criteria significant in making business decisions? Do you take into account the ESG performance of other stakeholders?***

Erste Group is a signatory of: the UN's Net Zero Banking Alliance (NZBA), the Financial Initiative of the UN Environment Program (UNEP FI), the UN Global Compact, the UN Principles for Responsible Banking, and the Bank in Serbia has additionally joined the UN Global Compact in Serbia, as well as signed the UN Women's Empowerment Principles and UN Standards for Business Conduct to combat LGBTIQ discrimination.

Also, Erste Group, with all its members, have defined clear objectives by 2050: invest EUR 1 billion through the social economy, which will create 200,000 jobs and build 15,000 affordable homes, use up to 90% green energy, promote up to 30% of women to the highest management roles, net zero operations, and net zero portfolios.

We strictly adhere to the documents we have adopted and made public: the Code of Conduct, Code of Conduct for Suppliers, Responsible Financing Policy, and the Diversity and Inclusion Policy. It is clear that the ESG agenda already has a significant impact and will influence our business from all angles and through all aspects, from how we do business to how we create and offer products and services for our clients. As we are expected to respect the ESG agenda, we expect the same from all those with whom and for whom we do business.

### ***What are the main challenges in implementing ESG criteria in our region?***

The ESG agenda is complex, multi-layered, and comprehensive, so logically, strategic implementation requires significant sacrifice and investment. On the other hand, in addition to the fact that we all must learn a lot to understand our role correctly to be able to act, legal regulation should also be aligned more quickly with EU frameworks and provide adequate support in a practical sense so that the effects are visible as soon as possible, so that we as a society feel them.

### ***How do you monitor the success of ESG initiatives? Are there certain frameworks or indicators that are used?***

We have 15 years of transparent communication and reporting on socially responsible and sustainable business according to internationally recognized methodologies and standards: GRI – Global Reporting Initiative, Principles of the UN Global Compact, UN Sustainable Development Goals, and the UN Women's Empowerment Principles. Two years ago, we also embraced the new legal framework for non-financial reporting in Serbia and ESG guidelines. Our report from day one carried with it public communication of plans and goals, so the measurement of their achievement is very transparent. We are incredibly proud that our report pays tribute to people and is therefore called: "The Bank is the People!"



***What do you see as the main trends, challenges and opportunities in the field of social responsibility, especially in the banking sector?***

There are no limits when it comes to opportunities... As the saying goes: "The sky is the limit." I am naturally an optimist and believe that we can do much more and better through the synergy of ideas and knowledge. Banks should join forces and contribute to every society becoming financially healthier through financial education and the inclusion of all members. Also, by limiting their operations in line with the green agenda, defining the readiness to restrict operations, and choosing clients, we will give clear and firm guidelines to the economy to respect the ESG agenda.

***How do you strike the right balance between financial results and the ESG goals? What would you say to a small business and a client who asked you this question?***

It sounds strange when someone from the banking sector says, "It's not all about money!" but this is true. It is about understanding a higher goal, changing the paradigm of understanding society, doing business, and making a profit. If you don't know, ask, get advice, and be informed. Plan steps and define priorities. The costs of achieving ESG goals should be seen as one of the most essential investments for your business and its future. Our society is beginning a significant transformation that is happening faster than ever. Therefore, only those aware of this and joining this fast-moving train, as I said at the beginning, will continue to operate successfully.



## About our guest

Sonja Konakov Svirčev has almost 20 years of experience of dealing with CSR strategy development and implementation, non-financial and GRI reporting, dialogue with stakeholders on the topics like: sustainability, social economy and banking, empowerment of the entrepreneurs and cumulating NGO's capacity and raising positive impact on society; in implementation of the UN Sustainable Development Goals and ESG - Environment, Social and Governance agenda, as well as the coordination of the initiated programs and projects in all this areas. For 15 years Sonja is author of the annual CSR report of Erste Bank: Bank is the People! Sonja is passionate about DEI topics and she is not only involved in strategic development of important documents on diversity and inclusion, but also creating open and inclusive corporate culture, running programs regarding gender balance, women empowerment, raising awareness about marginalized groups like: people with disabilities, LGBTIQ+, single parents, etc.

Sonja has been an initiator and activist in the areas of the CSR awareness raising, education, and implementation as a state-of-the-art business strategy, both at the company she works at and within the international and local initiatives and associations: UN Global Compact (UNGC) Serbia, Responsible Business Forum (RBF), etc., she has joined from their establishment. Sonja is also a member of Board of Directors of Serbian Philanthropic Forum and member of the Corporate Social Responsibility Council at the Serbian Chamber of Commerce. She was a member of the team developing the first National CSR Strategy for our country, and she gave contribution in defining the current Law on Volunteering and Law on Accounting regarding non-financial reporting. Further, Sonja was a member of the UNGC Board of Directors during 2014. Sonja was initiator for Erste Bank Serbia become signatory of Women's Empowerment Principles and UN Standards of Conduct for Business to tackle discrimination against lesbian, gay, bi, trans, intersex and queer. In 2022, Sonja was also included in the first official list of "Serbian CSR Professionals" published by the RBF, in cooperation with Smart kolektiv and Bizlife magazine. In 2023.

Sonja also was recognized as extraordinary mentor and motivator for young people interested in CSR, sustainability, diversity and inclusion, etc. Sonja was one of mentors in the Mentoring Program for Women titled "Share Your Knowledge" initiated and organized for more than 10 years by European Movement in Serbia, the Embassy of the United States of America in Serbia, Mission of OSCE in Belgrade and the Erste Bank. Sonja has been a panellist, lecturer and trainer at the numerous conferences and workshops sharing her knowledge and experience.

Thanks to Sonja's commitment, Erste Bank is one of the leaders and pursues best practices in the area of corporate social responsibility and sustainable business, diversity and inclusion, not only in Serbia, but also abroad. Many programs that Sonja initiated and successfully implemented during past years were publicly recognized and were awarded.

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