

Drivers of company engagement in sustainable business practices. Evidence from Albania

KRISTI DASHI¹

Faculty of Economy, University of Tirana, Albania
kristi.dashi@unitir.edu.al

Abstract

This study explores the drivers of company's engagement in sustainable business practices, using evidence from large companies operating in Albania. With increasing global emphasis on sustainability, understanding the factors that influence corporate commitment to environmental and social responsibilities is crucial. The research employs primary data, collected through a questionnaire addressed to Albanian companies and identifies the most important drivers of corporate sustainability. The results highlight the significant impact of both internal and external drivers on corporate sustainability practices. Increased customer awareness, social values and cultural norms, competition pressure, organizational values and culture, leadership vision and values, and improved company brand image are perceived as the strongest sustainability drivers. The findings provide valuable insights for policymakers, business leaders, and stakeholders aiming to enhance corporate sustainability in emerging markets. The study contributes to the literature by offering evidence from a developing country context, underscoring the importance of a supportive regulatory framework and strong internal organizational factors in promoting sustainable business practices.

Key Words: sustainability, sustainable business practices, internal drivers, external drivers

INTRODUCTION

In recent decades, the growing environmental challenges and societal expectations have urged businesses to change the traditional paradigm of doing business. There is a growing recognition of the interdependence between economic development, environmental and social well-being, which is reorienting companies around the world to reevaluate their traditional business models. The concept of sustainability has arisen due to increasing awareness of environmental issues such as global warming, air pollution, and climate change, which have adverse effects on both humans and the environment (Goni, et al. 2020). The concept has evolved from a small concern to a critical imperative for businesses worldwide.

(Porter and Kramer 2011) position businesses as key drivers of positive change towards sustainability efforts because of their scale, resources, capacity for innovation, long-term perspective, ability to create shared value, and the imperative to meet stakeholder expectations for accountability and transparency. In order to be

¹ Kristi Dashi is an assistant lecturer and PhD candidate at Faculty of Economy, University of Tirana. She holds a Bachelor and Master of Science degree from the same institution. Her PhD thesis focuses on corporate sustainability, contributing to the advancement of sustainable business practices and sustainability performance of companies. Her interests include corporate finance, corporate sustainability, aiming to explore the intersection between these fields. Kristi is an active member of the Association of Chartered Certified Accountants (ACCA) and is committed to bridging the gap between academic research and practical application in the finance industry.

sustainable, companies must change their ways of generating, delivering, and maintaining value across environmental, social, and economic dimensions (Shakeel, et al. 2020).

The change in business orientation has captured the interest of researchers to understand the reasons why firms engage in sustainable business practices. While the adoption of sustainable business practices is widely recognized as crucial for long-term success, the factors that drive corporate engagement in sustainability can vary significantly across different contexts.

This business model shift poses a challenge for emerging countries like Albania, where economic development problems intersect with environmental and social challenges. Albanian companies are navigating in a complex landscape shaped by evolving regulatory frameworks, societal expectations, and global market demands. Factors such as the European Union's accession requirements, local environmental degradation concerns, and the imperative to balance economic growth with sustainability pose a critical need for Albanian companies to adopt sustainability strategies.

Despite this growing imperative, studies on the specific drivers influencing corporate sustainability decisions within Albanian are missing. This paper aims to address this gap by exploring the drivers that drive Albanian companies to engage in sustainable business practices. By introducing insights gathered from a diverse sample of Albanian companies, this study seeks to identify the primary motivations shaping corporate sustainability strategies in the country.

The paper is organized as follows. In the next section, the literature review on drivers of corporate sustainable practices is summarized. The following sections include a description of the methodology of the study followed by the analysis of results, and conclusions and further points for improvement.

2. LITERATURE REVIEW

Several studies in the field of corporate sustainability have highlighted various drivers, that significantly influence the behavior of companies towards the sustainable business case. The proper identification and inclusion of these factors during the usual business activity is critical for companies. In the best possible case, the company will have to respond quickly and effectively to external drivers and will have to develop more the internal drivers (Lozano and von Haartman 2017), (Schrettle, et al. 2014), (Mitra 2022), (Sharma and Sharma 2015), (Ashton, Russell and Futch 2017); (Cagno, Trianni and Spallina 2017); (Bakos, et al. 2019), etc.

The company commitment to sustainability means integrating sustainable practices across all its initiatives, aiming to mitigate its impact on the environment and society while ensuring profitability. Sustainable business practices encompass two main dimensions: environmental and social. The environmental dimension covers aspects such as product and process design, production methods, reuse, recycling, waste management, and transportation practices (Mitra 2022). On the other hand, the social dimension includes human resource management practices like employee welfare, health and safety, training and development, teamwork, and participation in decision-making (Torugsa and O'Donohue 2013). Additionally, social initiatives encompass community development efforts such as creating job opportunities, training local communities for sustainable livelihoods, investing in community infrastructure, and engaging in charitable activities (Nair and Sodhi 2012); (Torugsa and O'Donohue 2013).

(Bansal and Roth 2000) conducted a qualitative case study to explore why companies engage with environmental issues, examining fifty-three firms based in the United Kingdom and Japan. Their analysis identified regulation, social responsibility and competitive pressures as the primary drivers influencing corporate responses to environmental concerns. They argue that companies that take proactive steps towards addressing environmental challenges stand to benefit in various ways, including increased profitability, streamlined production processes, expanded market share, cost savings, differentiation, enhanced stock prices, long-term viability, and avoidance of penalties.

In a study of empirical data collected from thirteen semi-structured interviews with senior executives and three interviews with sustainability experts, (Lozano and von Haartman, Reinforcing the Holistic Perspective of Sustainability: Analysis of the Importance of Sustainability Drivers in Organizations 2017) identify these external drivers: company reputation, market expectations, government, regulatory pressures, access to markets and customers, licenses to operate, comparison with competition, and customer awareness and preferences.

The research by (Borgert, et al. 2018) provides empirical insights into how companies address sustainability challenges during the initial phase of sustainability assessment. Their findings reveal that this process typically begins with adhering to regulatory requirements specific to the countries in which these companies operate. In accordance with (Porter and Linde 1995) perspective on the relationship between environment and competitiveness, regulatory mandates are designed to shift companies' perceptions of environmental concerns from being viewed solely as costs or threats to recognizing them as potential sources of competitive advantage.

Despite numerous factors identified in the literature, in general they can be grouped into two main categories: internal drivers and external drivers. In the table below, there is a summary of some of the main factors within each broad category, as identified in the literature.

Table 1: Classification of Company Sustainability Drivers

External Driver	Author
Regulatory and Legal framework	(Schrettle, et al. 2014), (Lozano & von Haartman, 2017), (Etzion 2007), (Borgert, et al. 2018), (Mitra 2022)
Social values and norms	(Schrettle, et al. 2014), (Rivera-Camino 2007), (Lozano and von Haartman, Reinforcing the Holistic Perspective of Sustainability: Analysis of the Importance of Sustainability Drivers in Organizations 2017), (Bansal & Roth, 2000), (Silvestre, Antunes and Filho 2018)
Market Drivers	(Porter and Kramer 2011), (Rivera-Camino 2007), (Silvestre, Antunes and Filho 2018)
Pressures from external stakeholders	(Hart 1995), (Torusga, O'Donohue and Rob 2012),
Internal Drivers	Author
Company Strategy	(Schrettle, et al. 2014), (Etzion 2007), (Silvestre, Antunes and Filho 2018)
Organizational Culture	(Schrettle, et al. 2014), (Lozano and von Haartman, Reinforcing the Holistic Perspective of Sustainability: Analysis of the Importance of Sustainability Drivers in Organizations 2017), (Wood 2010), (Silvestre, Antunes and Filho 2018)
Resources available	(Dyllick and Hockerts 2002), (Silvestre, Antunes and Filho 2018)
Owners/managers' positive attitude towards sustainability	(Chassé and Courrent 2017), (Schrettle, et al. 2014), (Prashar and Sunder M 2020)

Source: Author illustration

3. MATERIALS AND METHODOLOGY

The study aims to:

- Identify key internal and external factors that drive corporate engagement in sustainable business practices among companies operating in Albania.
- Analyze the relationships between identified internal and external drivers and the adoption of corporate sustainability practices.

The study is based on primary data, collected through a questionnaire distributed to large companies. The questionnaire contains items to be rated by respondents on a 5-point Likert scale, where '1' means 'strongly disagree' and '5' means 'strongly agree'. The questionnaire was initially tested to a small, targeted group of respondents to gather their opinions on the wording and clarity of the items. After reviewing the feedback from this pilot study, the questionnaire was finalized by making various adjustments and was prepared for wider distribution.

There is no official data of the companies which implement sustainable business practices in Albania, so it is difficult to determine the population of the study. In this context, large companies have been selected as the targeted companies for several reasons. First, large companies have a significant impact on economic, social and environmental development of the country, given that these businesses have more resources, financial capital and infrastructural facilities (Etzion 2007), (Anton, Deltas and Khanna 2004). This means that they have better opportunities to implement sustainable practices. Second, large companies are often subject to stricter regulation and supervision by the authorities, which may affect their sustainability practices. Moreover, there are many large companies in Albania that export to European markets or beyond, as well as branches of foreign companies. These companies are bound to follow sustainable practices as a result of having access to these markets or following the policies of the parent company. Third, data availability and transparency are usually higher in large businesses, making it possible to collect the most accurate and reliable data for the analysis. In addition, large businesses often publish annual sustainability reports and have structures dedicated to sustainability management, which makes it easier to evaluate their performance in this regard.

The questionnaire is distributed to large companies that operate in all sectors of economy and in different cities of the country, in order to have a more representative sample in terms of sector and geographical location.

According to information provided from Albanian Tax authorities, there are 956 large companies registered in Albania. The questionnaire has been sent to 200 companies and after eliminating questionnaires sent to companies who did not engage in sustainable business practices and questionnaires with missing data, a sample size of 110 questionnaires was provided for further data analysis. Some of the questionnaires were administered online and some face to face.

4. RESULTS AND DISCUSSIONS

The first section of the questionnaire revealed general information about the companies.

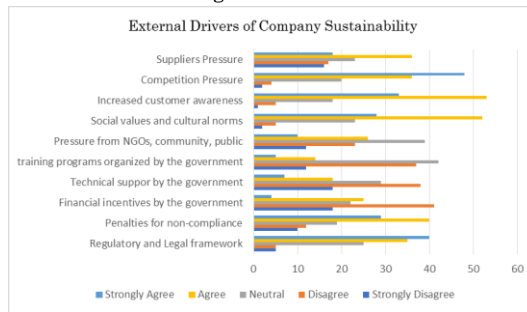
In terms of geographical distribution, the majority of the respondents were companies located in Tirana, Durrës and Fier, which were also the three cities with the largest number of large companies registered. The distribution percentages of the companies were respectively 49% in Tirana, 14% in Durrës and 10% in Fier. The remaining 27% were spread across other cities.

The sectorial distribution was mixed; with 35% operating in the production sector, 21% in the retail sector, 20% in services, 17% in the construction sector and the rest of the companies operating in transport sector. According to the gender of the company’s representatives, 54% of the representatives were male, 24% female, 18% of the companies had more than one representative of the same gender and 13% of them had more than one representative of different gender. 64% of the companies were limited liability companies, 28% were corporations and 8% were subsidiaries of foreign companies. Only 76% of the respondent companies stated that they have a formalized policy on environmental and social issues, in accordance with local legislation, industry requirements and international standards. 62% state that they have a specific position or person responsible for managing environmental and social issues and the rest of the companies have external consultants hired to advise on environmental policies, legislation or programs.

4.1 External drivers of company sustainability

The following graph illustrates varied responses from companies regarding external factors influencing their sustainability efforts.

Figure 1: “The company has undertaken sustainable business practices due to the following external drivers...”



Source: Author's calculations

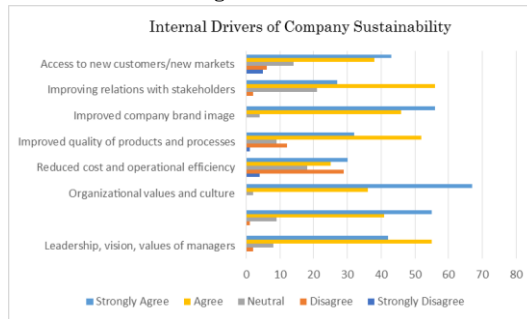
Notably, increased customer awareness, social values and cultural norms, and competition pressure receive the highest levels of importance. This likely reflects the growing consumer demand for sustainable practices, societal expectations for corporate responsibility, and competitive advantages gained through sustainable operations. Increased awareness about environmental issues, climate change and the long-term benefits of sustainable practices have made consumers more selective about the companies they tend to support. On the other hand, there are mixed views according to the role of government. Factors such as regulations, government training programs, technical support, and financial incentives show more neutral or mixed responses. This indicates lack of effectiveness or availability of government interventions, leading to differing perceptions of their impact. Companies might perceive these government interventions as inconsistent or insufficiently tailored to their specific needs.

The relatively high agreement with penalties for non-compliance suggests that regulatory enforcement is seen as a significant motivator for sustainability, ensuring compliance and accountability, leading to tangible improvements in environmental and social performance. However, it also highlights a potential over-

reliance on punitive measures rather than fostering intrinsic motivation for sustainability.

4.2 Internal drivers of company sustainability

Figure 2: “The company has undertaken sustainable business practices due to the following internal drivers...”



Source: Author's calculations

The graph highlights various internal factors that influence companies to adopt sustainable practices. The responses indicate that organizational values and culture, leadership vision and values, and improved company brand image are the most significant internal drivers, with a majority of respondents strongly agreeing or agreeing. This suggests that when sustainability is embedded into the core values and leadership of a company, it significantly drives sustainable initiatives. Reduced costs and operational efficiency also receive high levels of agreement, emphasizing the practical benefits of sustainability in terms of cost savings and streamlined operations. In contrast, factors like ethical orientation, values, and beliefs, as well as access to new customers or markets, show more balanced responses with a significant portion of neutrality. This could indicate that while these factors are recognized, they are not as universally prioritized or may be more context-dependent. The improvement in product quality and stakeholder relations receives moderate agreement, reflecting their importance but perhaps variability in impact depending on the industry or specific company circumstances.

5. CONCLUSIONS

The analysis of the external and internal drivers of company sustainability in Albania reveals several key insights. Externally, the strongest drivers are increased customer awareness, social values and cultural norms, and competition pressure, reflecting a growing public and market demand for sustainable business practices. This suggests that Albanian companies are increasingly recognizing the importance of aligning with consumer expectations and societal standards to remain competitive. However, responses to government support mechanisms, such as technical support and financial incentives, show more mixed results, indicating that these initiatives may not be sufficiently effective or well-implemented. Internally, the most significant drivers include organizational values and culture, leadership vision, and reduced costs and operational efficiency. These factors highlight the importance of internal commitment and strategic alignment in driving sustainability efforts within companies.

To enhance sustainability practices in Albanian companies, several improvements can be made. The first and the most important one has to do with the legislative gap in the field of corporate sustainability. Albania has made efforts in aligning its legislative framework, however notable gaps remain when compared to EU. These gaps primarily involve areas such as environmental regulations, which may not yet mandate stringent practices in emissions control, waste management, and natural resource conservation for companies. Furthermore, requirements for corporations to disclose their environmental, social, and governance (ESG) practices is not mandatory. Moreover, there is a need to strengthen government policies and ensure consistent implementation of support mechanisms to help provide the necessary infrastructure and incentives for companies to adopt sustainable practices. This could include enhancing training programs, offering more targeted financial incentives, and improving technical support. Additionally, fostering a culture of sustainability within companies through leadership development and embedding sustainability into organizational values can drive more intrinsic motivation for sustainable practices.

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