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Operationalization of ESG-Integrated Strategy Through the Balanced Scorecard in FMCG Companies

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Abstract: The increasing focus on sustainability and climate change mitigation necessitates that corporate strategies not only build competitive advantage but also contribute to the creation of sustainable operations. The purpose of the article is to present, based on the analyses of the development of the strategic targets of leading Fast-Moving Consumer Goods (FMCG) companies, a method for operationalizing an ESG-adapted corporate strategy within FMCG companies using the Balanced Scorecard (BSC). ESG, encompassing environmental, social, and governance factors, requires a shift in both strategic management theory and practice. The author explores how ESG metrics can be integrated into the traditional BSC framework alongside financial, customer, and business processes and learning and growth perspectives to align with the growing importance of sustainability. The study identifies specific measures that contribute to a successful transition toward sustainable business practices. The findings demonstrate that the BSC, when adapted to incorporate ESG considerations, is an effective tool for strategy implementation and operational management in FMCG companies. While the proposed framework focuses on the FMCG sector, it has potential applications across other industries. The article makes important theoretical contributions, though it would benefit from further empirical research, sector-specific comparisons, and a more detailed examination of external ESG factors that impact corporate strategy.

Keywords: ESG; sustainability; strategy; management; BSC; climate change; FMCG; company

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1. Introduction

Studies indicate that global concern about the impending climate crisis is growing rapidly [1]. While the distant future is often cited as the period when climate change will impact the economy, the materialization of climate risks is already evident. The Paris Agreement outlines a comprehensive action plan to combat climate change, aiming to reduce global greenhouse gas emissions and achieve climate neutrality in the second half of the 21st century. A global shift toward climate neutrality is underway, as reflected in both commodity and financial markets, as well as in regulatory frameworks. The unsustainable development of businesses—exploiting the environment at the expense of future generations and violating basic human rights—has prompted social opposition.

ESG, a non-financial performance measure, offers a broader perspective for analyzing corporate performance than traditional financial metrics [2,3]. Interest in the scope, drivers, and consequences of ESG practices related to corporate sustainability is widespread. Research emphasizes the need for harmonious development of the economy, society, and the environment [4–6], replacing a singular focus on economic performance. Therefore, companies must shift their control systems from being solely financially oriented to adopting a more comprehensive approach to strategy, aiming to create value for all stakeholders. This approach can significantly enhance financial performance. ESG should be viewed as a holistic framework for sustainable business, wherein companies recognize their societal and environmental impacts, necessitating responsibility for their decisions. Environmental management, social responsibility, and corporate governance should no longer be treated as separate issues. From this perspective, ESG must be integrated into corporate behavior and its effects on both society and the environment. Studies highlight the importance of companies understanding how their non-financial performance influences social and environmental outcomes [7,8]. Addressing these challenges must be central to strategic decision-making. Companies that fail to adapt their strategies and business models risk losing their social license to operate, access to capital, talented employees, and customers. Thus, it is crucial to focus on the actual implementation of ESG principles in both strategy and operational practices, with a clear objective of creating sustainable value. The transition to sustainability, grounded in Environmental, Social, and Governance principles, requires the development of new strategic elements in FMCG companies. Hence, the key issue is the need for companies to adapt their strategies to the operating conditions shaped by ESG requirements and the sustainable revolution, which are prerequisites for maintaining the customer base and ensuring the profitability of operations. This is particularly important for the FMCG industry, which is particularly exposed to changing societal expectations regarding sustainable practices. This situation informs the formulation of the article's aim, which is to present a method for operationalizing corporate strategy in alignment with ESG requirements, using an FMCG company as an example.

The fast-moving consumer goods (FMCG) industry plays a pivotal role in the daily lives of consumers worldwide, offering products such as food, beverages, cleaning supplies, cosmetics, and tobacco, all characterized by high turnover and relatively low prices [9]. This sector is particularly sensitive to sustainability concerns. Modern consumers, while still price-conscious, are increasingly focused on environmental and social factors, making more environmentally conscious purchasing decisions than in the past. Key product segments within the FMCG sector, including food, beverages (both alcoholic and non-alcoholic), cleaning products, cosmetics, and tobacco, are integral to daily life. The rapid movement of goods in this industry often requires companies to maintain substantial inventories and rely on highly efficient supply chains, contributing to economic growth and job creation. The dynamic and competitive nature of the FMCG industry demands constant innovation and adaptability. One of the most prominent trends shaping the FMCG market is the growing emphasis on sustainability and corporate social responsibility.

Consumers are increasingly prioritizing companies' environmental practices, expecting them to reduce carbon emissions, minimize plastic usage, and support local communities. In response, FMCG companies must integrate sustainability into their strategies and invest in green solutions to meet these expectations and retain customer loyalty. Consequently, there is a growing consumer preference for environmentally and health-conscious products free from artificial additives, driven by rising environmental awareness and the desire for healthier lifestyles. However, the sector faces several challenges. One key issue is the evolving consumer demand, with today's consumers becoming more health-conscious and environmentally aware, driving companies to offer healthier and more sustainable products. Additionally, the FMCG market is highly competitive, requiring continuous innovation and adaptation to maintain market position amid changing trends. In light of these new circumstances, FMCG companies must reassess their entire value chain, including upstream activities (pre-procurement), internal production and services, and downstream processes (distribution) throughout the product or service life cycle. Strategically implementing changes in core activities can enable FMCG companies to capitalize on opportunities emerging from the sustainable transition. This shift should aim to improve economic performance, particularly in scenarios where climate risks materialize, and the global green transition poses significant economic risks. Companies that are well-prepared and adaptable will be better positioned to seize these opportunities and strengthen their market resilience.

The current acceleration of changes in the global economy toward sustainability prompted the author to investigate the necessary transformations in the core activities of FMCG companies to ensure their profitability and resilience in an uncertain future. Hence, this article aims to address the existing gap in the literature regarding the influence of ESG aspects on the necessary adjustments and strategy development for companies in the fast-moving consumer goods (FMCG) sector. The author employs strategy operationalization based on adjustments to the Balanced Scorecard (BSC) perspectives, which serve as a useful tool for aligning strategies with ESG requirements. Observable changes in consumer attitudes, the increasing importance of individual environmental and social values in economic decisions (such as consumption and employment choices), and growing concerns about the state of the natural environment necessitate that companies adapt their strategies and business models to meet ESG requirements. This adaptation is not only essential but also creates significant business opportunities. For the sake of consistency in the argument, the author has revised the strategy and its operationalization to align with ESG requirements for FMCG companies. However, similar solutions discussed in this article can be applied to sectors beyond the FMCG industry. This forms the basis for the research hypothesis, which posits that integrating ESG requirements into corporate strategy via the Balanced Scorecard enables companies to address the challenges presented by the ESG framework effectively.

The achievement of the article's aim and the verification of the research hypothesis were realized through a logical and structured argument. The author conducted a comprehensive literature review on business ESG exposure, focusing on the long-term adjustments required for FMCG companies during the ESG transformation process. This literature review employed a systematic approach to identify, evaluate, and synthesize relevant academic articles, reports, and industry publications related to ESG integration into business strategies. The primary objective was to explore how ESG principles are incorporated into business strategies, with particular emphasis on their practical application in the FMCG sector. The review provided a solid foundation for understanding the integration of ESG principles into corporate strategy. The following section of the article describes the applied methodology, which is based on the necessary strategic adjustments to the Balanced Scorecard (BSC) to meet ESG requirements. In Section 4, the author analyzes the strategic sustainability goals of leading FMCG companies and, in Section 5, presents recommendations for necessary strategic changes to the BSC elements. The goal is to identify universal strategic solutions applicable to FMCG companies operating in a globalized economy transitioning towards sustainability. This approach requires a long-term perspective in redesigning strategies to ensure operational continuity and protect future profits from ESG-related risks. In pursuing the article's objectives, the author draws conclusions not only from the literature review but also from practical observations of FMCG leaders undergoing sustainable transformation. The focus is on strategic changes required to safeguard future economic performance in light of the challenges posed by ESG factors.

The article highlights the need for a strategic shift in FMCG companies and outlines necessary adaptations for integrating ESG requirements into their corporate strategies through the BSC framework. These perspectives define strategic objectives for embedding ESG elements into each dimension of the company's operations. The BSC proves to be a valuable tool for operationalizing ESG-focused strategies, helping FMCG companies develop long-term plans to ensure operational continuity and future profitability while mitigating transition risks. These transition risks arise from increasing pressure from investors, customers, and society, all of whom demand more sustainable business practices and contributions to climate change mitigation. Aligning strategies and operations proactively with ESG principles is therefore essential for FMCG companies to navigate the rapidly evolving business landscape. The article argues that necessary adjustments must be made across strategic and operational activities, investments, customer cooperation, and the development of production technologies. In conclusion, the author provides recommendations for the strategic development of FMCG companies, aiming to fill a gap in the literature by adopting a holistic approach to the integration of ESG principles. These changes, driven by all aspects of ESG performance, are essential to ensure the future profitability of FMCG companies in a global economy undergoing a sustainable transition. FMCG companies should reassess their entire business value chain, from upstream activities (pre-procurement) to internal production and services and downstream activities (distribution), ensuring that their operations are aligned with ESG principles throughout the product or service life cycle.

2. Literature Review

The concept of corporate sustainability has evolved over the past few decades, leading to reductions in the environmental impact of production processes and the introduction of clean production initiatives [10]. Sustainable development emphasizes cultivating natural, economic, and human capital to meet current societal needs while ensuring these needs can be met in the future, primarily through the use of renewable resources. Therefore, it is crucial to create an economic system that is environmentally friendly, promoting sustainable development through production methods based on low- or zero-emission technologies. Fu and Li [11] highlighted that ESG has become a research hotspot in the global economy and management fields due to its alignment with international priorities on green, low-carbon, and sustainable development [12,13]. ESG principles should play a central role in corporate strategy planning. All financial, strategic, and operational activities should contribute to clear progress towards green transformation, aiming to fulfill the goals of the Paris Agreement. As a result, ESG is now widely recognized as a key element of corporate strategy [14], integrating non-financial factors, as emphasized by Voorhees et al. [15]. These include the following developments:

- The need for companies to adjust operations to mitigate climate change
- Growing sensitivity to social justice concerns
- Prioritizing diversity and inclusion among top management, employees, and consumers
- Aligning corporate financing with sustainable development criteria
- Increased public focus on green assets and sustainability initiatives
- Expansion of global ESG disclosure requirements by governments and regulatory bodies
- Decarbonization commitments by major companies and financial institutions, driving counterparties towards a net-zero economy

The tightening of global policies on sustainable development will be reflected in corporate strategies and will directly impact their operational activities.

2.1. Fundamental Components of Environmental, Social, and Governance Frameworks

It is essential to emphasize that ESG is not limited to environmental values and climate change, although these are often the most intuitive aspects. Managing other areas, such as social and labor issues, is equally important. Therefore, ESG should be viewed holistically aligned with the broader concept of sustainable development. This approach goes beyond environmental protection to include social responsibility and labor practices, aiming for long-term positive impacts on local communities, markets, and the environment. Key elements of ESG include:

- E—Environment: This concerns the values and commitment of the company in managing its impact on the natural environment. This includes addressing climate change and greenhouse gas emissions, depletion of natural resources, air and water pollution, renewable energy, energy efficiency, protection of biodiversity, waste management, and the use of hazardous materials. Area E requires companies to change their strategies and implement environmental initiatives to combat global warming and ensure the green transition by promoting renewable energies. The green transition should be defined as the process of creating an economic system that operates in a way that is friendly to the natural environment, ensuring its sustainable development through the development of production methods based on low-emission and emission-free technologies. This process marks the transition to a low- and zero-emission economy [16]. Following these considerations, it can be asserted that ESG is an expression of the concept of the green economy and responsible investment [17]. Nakamura [18] found that environment-related investment can significantly increase corporate value in the long run. Other research [19] also indicated that the capital market reacts more positively to environmental performance than to information only about investments. These changes render some of the previously used business models outdated.

- S—Social: This aspect includes relationships with employees, contractors, and clients, addressing human rights (e.g., anti-slavery), diversity and inclusion, anti-harassment and discrimination, the privacy of individuals (both employees and others), working conditions and labor standards (e.g., child labor, forced labor, health, and safety). It also involves how the company participates in and supports the society and communities in which it operates. The focus is on the promotion of social dialogue and social inclusion.
- G—Governance: This spectrum concerns the culture and behavior of the organization in the context of implementing its values. It includes financial and tax strategies, the presence of audit, risk management, nomination and remuneration committees, the establishment of good practices, reporting irregularities and problems, resilience to environmental shocks, counteracting bribery and corruption, security, diversity, and management structure, as well as business transparency and responsibility.

Companies must incorporate social and environmental features into the main business model (area G) and strategy to create a competitive advantage, securing proper risk management of ESG exposure. Corporate governance plays an important role in formulating a sustainable strategy [20]. Researchers found that managers started to identify ESG risk as very important, incorporated into the transition period when the economy moves towards more sustainable models and faces regulatory changes [21].

2.2. The Balanced Scorecard. A Strategic Framework for Operationalizing Strategic Targets

The BSC serves as a powerful tool for supporting company management and aligning closely with its strategy. It transforms the strategy into a structured set of interconnected and measurable strategic targets. The goals and measures derived from this vision are balanced across various operational areas of the company. One key feature is maintaining balance among different aspects of the company's operations. As strategy parameters, the BSC elements create a cause-and-effect chain that illustrates important facets of the company's operations, depicting their connections and dependencies [22]. When used in this manner, the BSC becomes an invaluable tool for supporting the long-term success of the company by providing a comprehensive framework for strategic management and performance measurement. The construction of BSC is primarily based on four perspectives—key areas of the company's operations that are critical to its profitability [23]:

(1) Financial perspective, directly illustrating the result of the strategy adopted for implementation, where the values of the measures included in this perspective constitute the consequences of the core activity and the effects achieved in the remaining perspectives.
(2) Customer perspective, focusing on the most important issues related to the market in which the company operates. These issues determine the achievement of the intended financial results through the implementation of market goals. Hence, the customer perspective typically includes several generic measures of the successful outcomes from a well-formulated and implemented strategy [24].
(3) Perspective of business processes, presenting the specificity of the internal mechanism of a company's operation, expressing the most important factors affecting the internal efficiency of operations, which in turn affects the market position and the possibility of generating value by the company.
(4) Learning and growth perspective, describing the state of the company's basic resources and indicating the need for its improvement, change, or development to secure the company's future success.

Integrating ESG practices into a business strategy can often yield positive outcomes, such as cost reduction, improved product quality, and increased customer satisfaction [25,26]. This necessitates the enhancement of the operationalization of the strategy with elements related to ESG. Kaplan and Norton [24] emphasized the importance of supplementing financial measures with non-financial measures, such as customer satisfaction or employee attitudes, for effectively navigating a company's operations and providing a sustainable competitive advantage unique to the company, even from a scorecard perspective. It is crucial to identify and fund strategic initiatives that drive ESG performance improvement, align organizational units and employees with the adjusted strategy incorporating ESG elements, and link operational improvement programs and local dashboards to the strategic priorities of sustainable development. The measures incorporated into the BSC should be derived directly from the company's strategy. When supplementing the BSC with ESG, it is essential to consider the company's unique perspectives for environmental, social, and governance performance drivers. An efficient BSC should include a mix of core outcome measures and performance drivers [27]. The structure of the BSC should reflect the company's approach to strategic response to ESG challenges. This ensures that the BSC becomes a comprehensive tool for monitoring, evaluating, and driving ESG performance improvements that are aligned with the company's overall strategy.

The Balanced Scorecard (BSC) is a flexible framework that companies can customize to align with their unique goals and priorities. The four traditional perspectives, as proposed by Kaplan and Norton [24], are adaptable, allowing organizations to modify or extend them to meet specific needs. The BSC also specifies target values for key performance measures to guide the achievement of strategic objectives. However, these measures may shift due to external factors (e.g., economic, political, financial) or internal dynamics. To account for this variability, the BSC should incorporate risk management by integrating ESG factors. It should not only consider risks that may affect performance measures tied to strategic goals but also generate proactive responses that align with ESG requirements. This involves monitoring and managing risks associated with environmental, social, and governance issues to ensure the company's strategic objectives are aligned with sustainable practices. The link between the company's core business objectives and sustainable value creation must be continuously monitored. Strategic targets should directly contribute to value creation based on an analysis of the company's competitive position while identifying potential factors that could cause deviations from the desired outcomes. An ESG-integrated BSC should serve as the foundation for FMCG companies' transformation toward sustainable operations, securing their future economic success.

The literature review highlights that ESG has become a critical element of corporate strategy, necessitating substantial adjustments to the Balanced Scorecard framework across its four traditional perspectives—financial, customer, business processes, and learning and growth. The financial perspective now requires the inclusion of non-financial ESG indicators, linking sustainable practices to long-term profitability. The customer perspective must account for shifting consumer preferences towards environmentally and socially responsible products. The business process perspective calls for the integration of low-carbon, resource-efficient production methods, while the learning and growth perspective should emphasize the development of an ESG-conscious workforce and culture. These conclusions align with the aim of the article, demonstrating that the necessary adaptations to the BSC enable FMCG companies to effectively operationalize their strategies toward sustainability while ensuring competitiveness in an ESG-driven market.

3. The ESG-Focused Balanced Scorecard: An Example of a Strategic Instrument for Integrating ESG Considerations

FMCG companies operate within a global economy that exposes them to a dynamically changing business environment driven by the green transition. This transition not only directly impacts the company but also influences the operations of other businesses. Consequently, each FMCG company is subject to the effects of climate change and the measures implemented as part of broader climate policies collectively aimed at achieving global climate neutrality. In the context of an increasingly globalized economy, the impact of sustainable transition assumes a critical role in shaping the core activities of FMCG companies. These companies grapple with the escalating complexity and instability of markets.

The primary management challenge lies in adapting to the new conditions of operational activities shaped by a heightened emphasis on achieving carbon neutrality. To navigate this challenge successfully, FMCG companies must adjust to the evolving circumstances within the business environment, allowing for flexible responses in situations characterized by growing discontinuity and absolute. In particular, societal expectations regarding the reduction of greenhouse gas emissions are increasingly influencing the choices made by customers within the FMCG sector.

Products manufactured in alignment with the principles of sustainable development and featuring a lower carbon footprint are positioned to be more competitive compared to those lacking an implemented ESG strategy [28]. A report by the Capgemini Research Institute revealed that 79% of respondents base their purchasing decisions on the environmental impact of products and whether they were produced in accordance with sustainable development principles [29]. Considerations such as the recyclability of packaging, energy-saving features of devices, and the overall environmental impact of products have become significant factors influencing customer choices. Customers are increasingly placing importance on whether products align with sustainable practices. Concerns about climate change now wield substantial influence over purchasing decisions, while products that lack action to reduce their climate change impact are less likely to be chosen by customers. In response to these consumer expectations related to sustainability, companies are actively emphasizing their commitment to environmentally conscious manufacturing. This is evident in various channels, including in-store displays, advertisements, and company websites. ESG considerations compel FMCG companies to minimize their carbon footprint and decarbonize industrial processes, aligning with the global effort to combat climate change. This presents a substantial challenge for FMCG companies, necessitating a shift away from assets associated with GHG emissions toward a carbon-neutral offering. FMCG companies, in collaboration with other businesses, are encouraged to form partnerships with stakeholders to ensure the sustainability of their operational activities and transition to appropriate business models. This collaborative effort is expected to expedite the adoption of climate-friendly manufacturing technologies. Both industry and society perceive the acceleration of the green transition and the minimization of carbon footprints as catalysts for future sustainable development and value creation.

The functioning of FMCG companies within the global economy while implementing sustainability goals forces imperative changes that determine their success. This requirement extends beyond products or markets to every sphere of operational activity, reflected in the goals and measures of BSC perspectives. It is crucial to implement procedures, standards, and measurements that enable company management to achieve the confidence that the creation of economic profits in the long term is appropriately managed and secured at all levels of strategy implementation in the organization. The ESG-adapted BSC should become an efficient tool for strategy definition and execution in a new environment and a socially focused business environment, supporting the company in reaching long-term success and responding to society's expectations for sustainable and inclusive economic growth. ESG performance measures, defined in BSC perspectives, become a vehicle for communicating, aligning, and motivating practices that lead to strategy execution. The factor integrating these relationships is the focus on creating value and the ability to translate strategy into operational measures. Incorporating environmental, social, and governance factors into a company's BSC is a crucial step in aligning business operations with sustainable and responsible practices. This demonstrates a commitment to sustainability and responsible business practices, positively impacting the company's reputation, risk management, and long-term financial performance. Companies should initiate the process by identifying the specific ESG factors most material to their operations. Materiality assessments can help prioritize ESG issues in the strategy development process. The definition of ESG factors should be based on industry-specific ESG initiatives and standards, guiding the company's efforts and ensuring alignment with best practices. It is worth emphasizing that the benefits and costs of a company's operations are not only visible in profit and loss statements or in balance sheets but also have an impact on the broadly understood business environment, the natural environment, and local communities, affecting human well-being [30], what should be reflected in the strategy operationalization.

The cause-and-effect relationship should pervade all four perspectives of BSC, delivering an integrated set of objectives and measures that describe the long-term drivers of success on all levels of the organization. The goal is to define strategic targets and related performance metrics within each perspective. The ESG-adjusted targets regard the management of intangible assets, e.g., people, information, and organizational culture, which are described within the learning and growth perspective, driving improvement in the business processes that create value for customers. Success from the customers' perspective is reflected in the outcome recorded in the financial perspective [31]. ESG strategic objectives and associated performance tasks must be defined within each of these perspectives:

- The environmental component of BSC perspectives should include objectives referring to lower decarbonization, deforestation, improvement of water usage, or less soil degradation.
- The social component of the BSC perspectives should encompass objectives related to enhancing health, working conditions, well-being, work-life balance, education, and women's roles.
- The governance component of the BSC perspectives includes objectives related to corporate governance, an efficient management structure, fostering a positive company culture, aligning managerial remuneration with ESG factors, effective risk management, and promotion of stakeholder dialogue.

The relationship between the BSC and ESG considerations lies in the integration of sustainability-focused metrics within the BSC framework, enabling companies to align their strategic objectives with long-term ESG goals. Traditionally, the BSC emphasizes financial performance and operational efficiency. However, as ESG considerations gain importance, companies are incorporating ESG metrics into the BSC to ensure that their strategies account for sustainability, ethical governance, and social impact. By aligning financial goals with environmental, social, and governance metrics, the BSC enables companies to pursue profitability while promoting sustainable and ethical practices. ESG metrics also highlight risks and opportunities related to sustainability and social responsibility, ensuring their inclusion alongside financial performance. ESG-focused BSCs help companies address long-term sustainability challenges, such as climate risk, regulatory compliance, and evolving consumer expectations. This approach aligns strategic initiatives with broader societal goals, ensuring that companies remain competitive and resilient in an evolving business environment.

When implementing strategies that take into account ESG, companies should intensively work to integrate these activities with the operationalization of the strategy executed by BSC. This integration serves both to avoid potential risks and actively build a competitive advantage. According to van Duuren et al. [32], ESG strategic management has a long-term impact on technology, resources, employees, and society. There are various findings within the literature that economic performance is supported by stakeholders-related aspects such as employees' motivation and retention, customer satisfaction, loyalty, increased reputation, and better access to capital [33–36]. Scholars have indicated that ESG performance supports the execution of companies' targets. Various studies have explored the correlation of the economic results of companies with environmental performance [37], social performance [38–40], and governance performance [41–43]. Important for considerations of this article is to indicate the following:

- Environmental performance refers to a company's ability to use natural resources in its processes efficiently.
- Social performance promotes ethical values and generates trust in its employees, ensuring respect for human rights.
- Governance performance refers to a company's capacity to efficient corporate management systems and effective processes.

Environmental performance is crucial to efficient operations, reducing the usage of energy, water, and other resources, which reduces costs and improves profitability. Consumer perspective from an ESG point of view is secured by ensuring product safety and responding to society's preferences. Studies have also shown that positive social impact correlates with higher job satisfaction [44], which results from a good corporate culture, which can create a good working atmosphere for employees, increasing their sense of identity and belonging, reducing staff, and helping maintain the stability of the company's daily operation. Hence, scholars have proven that social performance positively influences corporate financial performance [45,46]. ESG also focuses on management performance that requires incentive schemes focused on sustainable issues, independent and engaged boards, employment diversity, and transparency of risk management. It was indicated by Xie et al. [47] that ESG activities have a positive relationship to corporate financial performance. Zhou et al. [48] confirmed that improvement in the ESG performance of enterprises increases the company's market value thanks to the positive impact of the company's financial results. Important for the execution of the article's purpose is that sustainability performance shall be significant for the long-term success of companies.

Consumers are exhibiting an increasing environmental consciousness and are actively demanding more sustainable products and packaging. FMCG companies are facing significant pressure to minimize their carbon footprint, enhance resource efficiency, and utilize more sustainable materials. Consequently, many FMCG companies are investing in sustainable packaging, adopting measures to reduce waste and carbon emissions, and exploring innovative technologies, including biodegradable materials and renewable energy sources. Beyond environmental concerns, consumers are also placing importance on social issues, such as fair labor practices, fair trade, and diversity and inclusion initiatives. In response to these evolving consumer expectations, FMCG companies are adapting their strategies to align with ESG requirements. Consumers are now more likely to discontinue support for products or services offered by companies that do not adhere to ESG principles.

Companies are recognizing that strategic alignment in the area of sustainable development is becoming a key competitive factor, influencing consumer preferences and shaping the trajectory of business relationships. In response to evolving conditions, FMCG companies have initiated activities to reduce greenhouse gas emissions, distinguishing themselves from others by cultivating a competitive advantage. This advantage is defined as a unique position within the sector relative to competitors, enabling the attainment of above-average profits and surpassing the competition. With the heightened focus on ESG factors, consumers are increasingly favoring brands that emphasize their sustainable attributes. A high level of ESG performance supports achievements in environmental and social issues, making a brand more appealing to environmentally conscious consumers and potentially leading to an increase in market share. This, in turn, can have a positive impact on the company's financial performance.

4. Analysis of ESG Objectives in Leading FMCG Companies

The following section of this article presents an analysis examining the ESG goals and the operationalization of ESG strategies for a selection of prominent companies in the FMCG sector. By evaluating their strategic objectives and practical implementations, the analysis seeks to demonstrate how these companies are addressing the sustainability challenges embedded in their strategic responses. The focus will be on identifying common approaches, such as emissions reduction, sustainable sourcing, and social responsibility initiatives. Furthermore, the analysis will consider the influence of key stakeholders, particularly retail chains, which increasingly transfer their sustainability expectations to FMCG suppliers, further driving the alignment of supply chains with ESG imperatives. This shift is motivated by the need not only to reduce carbon footprints but also to manage risks across the entire supply chain, encompassing the full spectrum of ESG considerations. The ESG strategic objectives of two global FMCG leaders, Nestlé and Unilever, along with Lavazza Group, a major coffee producer, are presented in this analysis. Additionally, key

FMCG clients such as REWE Group, Schwarz Group, and Woolworths Group have been selected for review. Each of these companies has established specific ESG targets as integral components of their broader business strategies.

Nestlé, one of the largest food producers, has set forth a comprehensive array of strategic sustainability objectives supported by key performance indicators (KPIs) to ensure rigorous monitoring and implementation. Nestlé underscores that business benefits and positive social impacts must be mutually reinforcing. Accordingly, the following sustainability goals have been established:

- Reduction of greenhouse gas (GHG) emissions by 20% by 2025 and by 30% by 2030, relative to 2018 levels, with the ultimate goal of achieving zero negative environmental impact from operational activities by 2050.
- Achieving 100% deforestation-free status for primary supply chains in the areas of meat, palm oil, pulp, paper, soy, and sugar by 2022, extending this to cocoa and coffee by 2025.
- Sourcing 20% of key ingredients through regenerative agricultural practices by 2025, with a target of 50% by 2030.
- Reducing water consumption by 6 million cubic meters.
- Sourcing 100% of key ingredients responsibly by 2030.
- Ensuring that over 95% of plastic packaging is recyclable by 2025, with continued efforts to achieve 100% recyclability or reusability.
- Reducing virgin plastic usage by one-third by 2025 compared to 2018 levels.
- Providing access to economic opportunities for 10 million young people globally.
- Increasing the representation of women in the top 200 senior management positions to 30%.

These objectives are fundamental to Nestlé's approach to sustainable business, which is anchored in the principle of creating shared value. This approach underscores that long-term success is predicated on delivering value to all stakeholders, aligning business performance with societal and environmental objectives.

The Lavazza Group, a global coffee producer, has declared its commitment to conducting business with respect for both people and the environment. This commitment aligns with the Sustainable Development Goals (SDGs) of the United Nations' 2030 Agenda and is reflected in the production of sustainable products. Lavazza Group develops sustainable development projects aimed at improving the well-being of local communities in which it operates. The company sources raw materials from certified farms dedicated to promoting economic development, building resilient communities, and protecting the environment. Additionally, Lavazza strives to offer products with biodegradable packaging, such as Lavazza Eco Cups. The aforementioned ambitious goals have been formalized into specific sustainable development targets that are integrated into the group's strategy:

- Neutralization of the Lavazza Group's carbon footprint by 2030, achieved through emissions monitoring and measurement, ongoing efforts to improve efficiency and reduce environmental impacts, and offsetting residual emissions that cannot be mitigated.
- Ensuring that the entire packaging portfolio is reusable, recyclable, or compostable by 2025.
- Allocating funds for projects that support healthcare, education, and vulnerable groups in local communities, both in Italy and abroad.

Another noteworthy example is Unilever, one of the world's largest consumer goods companies, which has set sustainability targets encompassing the full spectrum of environmental, social and governance considerations. Unilever focuses on making sustainability progress integral to its business performance, aiming to transform operations to achieve the defined sustainability goals. The company plans to reach a net-zero target across its value chain by 2039, aligning its emissions reductions with the commitments of the Paris Agreement. To this end, the following objectives should be achieved:

- A 100% reduction in absolute operational emissions (scope 1 and scope 2) by 2030, using 2015 as the baseline year.
- A 42% reduction in scope 3 energy and industrial GHG emissions by 2030, using 2021 as the baseline year.
- A 30.3% reduction in scope 3 forest, land, and agriculture (FLAG) GHG emissions by 2030, using 2021 as the baseline year.

These objectives underscore Unilever's comprehensive approach to sustainability, addressing both direct and value chain-related emissions.

Unilever aims to reduce its environmental impact by 2030 through the elimination of deforestation in its supply chain, sourcing 95% of the volume of key crops from sustainable sources, implementing regenerative agriculture practices on 1 million hectares, and protecting and restoring 1 million hectares of natural ecosystems. Additionally, Unilever plans to implement water stewardship programs in 100 locations within water-stressed areas. A key priority for Unilever is to reduce its use of virgin plastic and develop solutions for hard-to-recycle flexible plastics, including plastic sachets. To this end, the company has set the following targets:

- A 30% reduction in its virgin plastic footprint by 2026 and 40% by 2028.
- Ensuring that 100% of plastic packaging is reusable, recyclable, or compostable by 2035.
- Incorporating 25% recycled plastic in packaging by 2025.
- Collecting and recycling more plastic packaging than is sold by 2025.

Unilever is committed to enhancing livelihoods across its global value chain by supporting 250,000 smallholder farmers through livelihood programs by 2026, ensuring fair wages for workers at a minimum of 50% of its suppliers by 2026, and helping 2.5 million small and medium-sized enterprises (SMEs) in its retail value chain grow their businesses by the same year.

The primary customers of FMCG companies consist of retail stores and chains that actively pursue their own ESG objectives. These retail entities collaborate with their suppliers, who are consequently required to contribute to the fulfillment of their customers' sustainability goals. Notable examples of such ESG-driven collaborations include the retail chains, e.g., REWE Group, as well as Lidl and Kaufland (Schwarz Group).

REWE Group, one of Europe's largest retail and tourism conglomerates, has fully integrated sustainability into both its strategy and business processes. The company's sustainability strategy is structured around four strategic pillars:

- Green Products: Focuses on promoting animal welfare, improving supply chain sustainability, innovating packaging, and developing sustainable product lines.
- Energy, Climate, and Environment: Prioritizes climate protection, conservation of resources in operations, and the development of a green store concept.
- Employees: Emphasizes values and corporate culture, employee training and development, health and safety, career-life balance, diversity, and equal opportunities.
- Social Involvement: Includes initiatives on conscious nutrition and exercise, creating opportunities for children and youth, reducing food waste, and supporting biodiversity and environmental protection.

Each pillar of the sustainability strategy outlines key areas of commitment that are operationalized into specific actions aimed at achieving the company's sustainability goals, which are aligned with the UN Global Sustainability Goals. These targets are meticulously defined, with precise metrics to ensure accountability. For instance:

- Responsible Consumption and Production: REWE Group promotes a sustainable product range, focusing on organic, vegan, and regional private-label products. A target of reducing plastic in sales and packaging by 20% by the end of 2025 has been established. Additionally, the company is developing a modern forecasting and automated ordering system to reduce food waste and enhance collaboration with food banks.

- Climate Action: As a member of the Science Based Targets initiative (SBTi), REWE Group has set a goal of achieving net-zero emissions by 2050. This involves addressing GHG emissions across its operations and supply chain. Suppliers responsible for 75% of REWE's production-related GHG emissions are required to set their own reduction targets in line with SBTi guidelines. Additionally, REWE Group is investing at least 5 million euros annually (from 2022 to 2026) in rewetting moorland soils degraded by agriculture and peat extraction through contributions to the NABU Climate Fund. It also purchases Sustainable Aviation Fuel (SAF) from the Lufthansa Group, which can reduce GHG emissions by approximately 80% compared to conventional fuel.

These sustainability objectives are cascaded to REWE Group's suppliers, who are required to incorporate these targets into their own operational strategies, ensuring a comprehensive and aligned approach toward sustainability across the value chain.

Another notable example is the Schwarz Group, which operates well-known supermarkets and discount chains such as Lidl and Kaufland. In 2020, the Schwarz Group committed to climate neutrality by joining the Science Based Targets Initiative (SBTi) and pledged to become a climate-neutral company by 2025, targeting both direct and indirect emissions. To address emissions within its supply chain, the Schwarz Group requires that its suppliers, responsible for 80% of its supply chain emissions, set climate goals in accordance with the SBTi methodology. This aligns suppliers, many of whom are FMCG companies, with the Group's overall climate-neutral objectives. Additionally, the Schwarz Group is committed to minimizing non-recyclable waste, which extends to the materials used in the products supplied by its partners. The Group also emphasizes sustainable food production for Lidl and Kaufland's private-label brands, ensuring that products meet their sustainability standards. Another key initiative is the effort to reduce the price gap between plant-based proteins and equivalent animal products, promoting more sustainable consumption choices among customers. Through these initiatives, the Schwarz Group not only seeks to reduce its environmental footprint but also aims to foster more sustainable practices across its entire supply chain, thereby setting a standard for sustainability in the retail sector.

Woolworths Group, Australia's largest retailer, has implemented a sustainability plan founded on five guiding principles, which are translated into specific goals and detailed commitments. This plan is organized around three key areas: People, Planet, and Product, with each area's goals being transformed into actionable commitments. For instance, the following objectives have been established under the "People" pillar:

- Fostering an inclusive workplace: Building inclusive workspaces and teams for employees, with progress confirmed through benchmarking against externally validated standards and employer awards.
- Investing in holistic employee wellbeing: Enhancing wellbeing awareness and offering 24/7 support for team members, aiming to eliminate serious incidents, injuries, and illnesses while providing comprehensive care and response support.
- Creating meaningful retail careers for today and the future: Providing continuous employee training, investing in identifying future skills and capabilities, and implementing programs that support the upskilling and reskilling of teams.
- Activating ethical and mutually beneficial partnerships throughout the value chain: Strengthening human rights governance, promoting a culture that respects human rights through impact assessments and responsible purchasing practices, conducting supplier due diligence, and fostering sustainable human rights outcomes through multi-stakeholder and cross-industry collaborations.
- Making a positive impact on customers and communities: Ensuring the safety of customers, partners, and communities while investing the equivalent of 1% of a two-year rolling average of the Group's Earnings Before Tax (EBT) into community partnerships and programs.

The "Planet" pillar outlines the following greenhouse gas (GHG) reduction targets compared to 2023 levels:

- Reduction of absolute Scope 1 and Scope 2 emissions by 80% by 2030 and by 90% by 2045.
- Reduction of absolute Scope 3 emissions by 55% by 2030.
- Reduction of absolute Scope 3 emissions from forest, land, and agriculture (FLAG) by 40% by 2033 and by 75% by 2050.
- Achieving net-zero emissions across the entire value chain by 2050.

Woolworths Group has also set a target of using 100% renewable energy by 2025 and aims to transition its last-mile delivery fleet to 100% electric vehicles, which would result in a roughly 60% reduction in absolute transport GHG emissions compared to 2022. Additionally, the company has committed to reducing water usage by 10% by 2025, relative to 2020 levels.

The "Product" of Woolworths Group's sustainable strategy pillar focuses on targets aimed at promoting healthier lifestyles in the communities where the company operates. Key objectives include achieving sustainable packaging by reducing plastic in own-brand products by 50% by 2025 (compared to 2028 levels), incorporating 60% recycled content in own-brand packaging by 2025, and ensuring that 100% of own-brand packaging is widely recyclable, reusable, or compostable by 2025. Additionally, the company aims to achieve zero deforestation across primary deforestation-linked commodities by the end of 2025, expand its protein offerings with a focus on animal welfare, and promote the responsible retailing of alcohol and tobacco.

From the analysis of ESG objectives across the selected FMCG companies (Nestlé, Unilever, Lavazza Group, REWE Group, Schwarz Group, Woolworths Group), several common elements emerge, which represent universal ESG objectives in the FMCG sector:

- All companies emphasize the reduction of GHG emissions in their operations and supply chains, setting clear targets.
- Companies are working towards eliminating deforestation from key supply chains, particularly in sectors such as agriculture, palm oil, soy, and cocoa.
- There is a strong commitment to responsible sourcing and the promotion of regenerative agricultural practices to enhance sustainability and biodiversity. This includes partnering with eco-conscious suppliers and ensuring responsible sourcing practices.
- FMCG companies are setting ambitious targets for making their packaging recyclable, reusable, or compostable while reducing virgin plastic usage.
- Reducing water consumption and improving water management, especially in water-stressed regions, is a key environmental priority.
- FMCG companies aim to contribute to social development, particularly by supporting smallholder farmers, ensuring fair wages, and investing in local communities.
- Reducing waste, particularly food and non-recyclable materials, and promoting circular economy models are critical for sustainable operations.
- Companies are increasingly focusing on creating inclusive workplaces, enhancing employee well-being, and fostering diversity and equal opportunities.

These shared elements reflect the evolving ESG landscape within the FMCG sector, emphasizing environmental stewardship, sustainable business practices, and social responsibility in alignment with global sustainability frameworks, including the Paris Agreement and the UN Sustainable Development Goals (SDGs). Specific targets must be integrated into the operationalization of the company's strategy to ensure alignment with these principles.

5. Proposal to Operationalize the ESG-Adopted Strategy of FMCG Company Using the Balanced Scorecard

The observed fundamental and rapid changes in the business environment, characterized by a sustainable transformation, require changes in the approach to defining strategy. It seems that it is not possible to avoid the risk caused by ESG, which in a globalized economy will increasingly affect the economic results of enterprises. It becomes more important to identify those elements that, thanks to the competencies possessed by the company, allow it to build a competitive advantage in a climate-neutral economy. FMCG companies must, therefore, take into account the green transformation and the changes in their environment already at the strategy preparation stage to prepare for the necessary organizational, cultural, and financial changes to achieve the strategic goals. This affects the allocation of resources at the company's disposal. It is important to include change factors caused by the green transformation in the strategy regarding climate risk management, capital planning and financing of operational activities, research and development, asset development planning, digitization of operational activities, marketing, and cooperation with stakeholders. Studies suggest that the implementation of ESG practices has a positive impact on corporate economic performance [49–51], indicating a favorable correlation between ESG activities and financial performance. Therefore, companies must extend their focus beyond traditional competitiveness dimensions, incorporating sustainability factors into their strategic considerations. This involves the development of new business models and a sustained emphasis on the long-term, strategic success of the FMCG company.

Each company is tasked with generating value through the utilization of resources, transforming inputs into outputs based on efficient management principles [52]. The production process significantly impacts various stakeholders, including suppliers, employees, customers, and owners, categorized as direct stakeholders, along with those considered more indirect, such as society, regulators, or the natural environment (incurring costs of externalities). These relationships can be characterized as the creation of shared value among a spectrum of stakeholders, encompassing employees, customers, suppliers, and communities [53–56]. A strategic approach considering ESG drivers should articulate how the business model will be reinvented and how a competitive advantage will be built through positive social and environmental performance. Incorporating environmental, social, and governance factors into a company's strategy is imperative for fostering sustainability, embracing responsible business practices, and cultivating long-term value creation. ESG encapsulates a spectrum of drivers that are likely to impact the long-term performance of a company. There should be indicated at least four crucial elements of the ESG framework:

(1) Environmental goals aligned with the strategic goals of the company.
(2) Social responsibility describing the way of working with different stakeholders.
(3) A governance structure for effective implementation of ESG framework and accountability to all stakeholders, based on effective internal controls.
(4) Disclosures and transparency presenting ESG performance in the company.

The strategic analyses must prioritize product design, product access, and operational carbon footprint, incorporating them into a comprehensive evaluation of social and environmental consequences. This integration links ESG considerations directly to strategic choices, with the outcomes intended to bolster both ESG and financial performance. The impact of ESG performance extends beyond mere compliance, significantly influencing a company's competitive positioning within the context of pressing issues such as climate change, water scarcity, pollution, and various social factors, including product safety, regulatory relationships, and community engagements. It is crucial, as highlighted by Heugh et al. [57], to emphasize that the management of environmental and social factors is an integral component of sustaining a competitive advantage in today's economy. However, there exists a tangible risk of severed collaborations with suppliers and customers, as evidenced by current trends observed among small and medium-sized enterprises providing services and products to companies obligated to report ESG. Additionally, there is the looming risk of diminished market standing for companies failing to demonstrate robust ESG performance. This underscores the importance of proactive ESG integration into business strategies for both risk mitigation and the preservation of market relevance.

The implementation of an ESG-adapted strategy is a continuous improvement process that involves enhancing competencies while considering regulatory aspects, international and local business initiatives, and insights from the experiences of leading companies. A well-defined strategy for building competitiveness should serve as a clear roadmap. The initial step involves determining the current status of each company. Subsequently, an analysis of the integration of ESG implementation into the business strategy, reporting mechanisms, communication practices, and the development of human competencies is crucial. Activities within the developed strategy can be carried out in parallel and gradually deepened, detailed, and expanded. Companies currently face issues such as inadequate capabilities and high costs in ESG practices, which greatly reduce their motivation to implement ESG [58]. Despite this, running a business in an ESG-orientated way has become the binding norm of modern management in the global economy [59]. Companies must include in the strategy at least three drivers of the environmental issues [15]:

(1) The current environmental impact generated by operations and carbon footprint reduction strategies.
(2) Value creation by delivery of products and services with a positive environmental impact.
(3) Products and capabilities supporting a sustainable economy.

Social issues should be integral to the company's strategy, incorporating proper ways of managing relationships with employees, managers, suppliers, and society at large. Companies are obligated to prioritize the well-being of their employees, collaborate with entities sharing ESG values, and actively contribute to local communities by fostering environmental and social values. Consequently, the strategy should serve as a responsive framework adapted to the dynamics of the environment in which the company operates. To address the strategic risk component posed by the green transformation, it is imperative to conduct thorough and multi-aspect future analyses. This entails preparing for the complexities associated with the evolving landscape by considering numerous possible future scenarios and determining their potential impact on the company's future performance. This proactive approach positions the company to navigate the challenges and opportunities arising from the green transformation effectively, ensuring that the strategic choices align with the anticipated changes in the business environment. The strategy should

- Lead to increased flexibility in the enterprise's operations by formulating plans for the decarbonization of operational activities. This involves developing scenarios for flexible adaptation to regulatory changes, market conditions, and variations in access to financing;
- Ensure not only the enterprise's resilience to external shocks but also, through enhanced flexibility and efficiency, cultivate the ability to capitalize on emerging opportunities.
- Specify how to shape the value-added chain in a manner that enables the reduction of the company's risk by proactively addressing long-term challenges arising from the necessity to adapt to ESG requirements.

Considering the goals and obligations of companies in terms of achieving ESG performance, it is reasonable to anticipate a transition over time from the necessity to report data or actions taken to the imperative of achieving specific performance parameters. A strategic priority is the precise understanding of the climate strategies adopted by a company's counterparts and within its target markets, coupled with a commitment to attaining ESG performance targets. Neglect in this area may render it challenging for a company or production plant to sustain its presence in the market. Conversely, implementing advanced climate and decarbonization strategies in the operations and supply chain of an FMCG company can enhance its ability to effectively navigate competition, fortify and cultivate relationships with customers, expand market share, and potentially secure better prices and margins through an improved value proposition adjusted for ESG considerations. This underscores the pivotal role of proactive ESG integration in achieving a competitive edge and fostering sustained success in the market.

Top management in an FMCG company must carefully select ESG metrics that are both relevant to the business and aligned with its strategic goals. These metrics may include areas such as carbon emissions, diversity and inclusion, community engagement, ethical sourcing, and governance practices. The selection process should account for both industry-specific factors and stakeholder expectations. Stakeholder input can offer valuable insights and foster greater buy-in. Achieving strategic ESG goals should be supported by a motivational system that holds individuals or teams accountable for the success of the

ESG strategy. Incorporating ESG performance into employee compensation and incentive programs is critical for motivating and rewarding employees at all levels, including top management and the board, for meeting ESG objectives. This commitment ensures that the company's leadership is dedicated to ESG integration. Additionally, the company must allocate the necessary financial and human resources to achieve defined ESG targets and enhance overall performance. ESG integration into the strategy is an ongoing process that requires regular review to adapt to evolving sustainability challenges. By embedding ESG metrics into the company's Balanced Scorecard, the company can demonstrate its commitment to sustainability and responsible business practices while fostering long-term value creation. Therefore, companies should integrate ESG tasks into their managerial and operational initiatives to ensure comprehensive execution.

ESG-adapted BSC shall respond to the following risks and opportunities that can materialize in the business environment:

- Risks of losing market share or suppliers because of faulty strategy in the area of sustainability.
- Monitoring of competition and market initiatives in the field of climate strategies and appropriate response to new phenomena and trends.
- Products and assets (e.g., production) that may become uncompetitive in a climate context and may require redesign.
- Acquiring new customers thanks to the advantage associated with sustainable product redesign.
- Use of a climate strategy to increase margins in the context of the changing needs of customers (e.g., bonus for emissions reduction and sustainable operations).
- Taking on a proper place in the reshaped supply chains.
- The possibility of using "green financing" to carry out a sustainable company's transformation, changes in products, technologies, or supply chains and the general financing of the company's development as a leader of ESG performance.

ESG performance refers to environmental, social, and governance performance, while economic performance is measured by financial results and the company's ability to generate long-term shareholder value and sustain financial health [2]:

- Environmental performance encompasses carbon emissions, resource consumption, and product innovation.
- Social performance comprises human rights, equality, health and safety, community and product responsibility.
- Governance performance pertains to board functions, structure, compensation, policy, vision, and strategy.

ESG performance can vary widely, encompassing factors such as environmental impact, employee satisfaction, diversity and inclusion, community engagement, and ethical supply chain management, among others. For each identified ESG factor, clear targets and allocated key performance indicators (KPIs) should be developed alongside traditional financial and operational metrics. These targets must be based on the specific organization's sustainability goals and industry standards and best practices, supported by the implementation of a robust system for collecting ESG data and disclosure of ESG performance. ESG goals should align with the company's overall strategic targets, and the defined ESG KPIs should be integrated into BSC perspectives. ESG strategic initiatives should not only align but also support and enhance the overall corporate strategy. It is crucial for employees at all levels to understand the importance of ESG and to be aligned with the company's ESG targets.

Companies can leverage sustainability measurement and reporting tools, such as carbon footprint indicators, greenhouse gas emission balance sheets, and product life cycle assessments, to monitor progress toward achieving strategic ESG goals. Management can utilize these tools to track and assess advancements in ESG performance. The strategy, adapted to ESG factors and the achieved performance, should be effectively communicated to stakeholders, for example ESG factors are increasingly important to investors, so it's crucial to address their concerns and expectations. It is crucial that key stakeholders, including investors, employees, customers, communities, and regulators, are actively engaged in ESG initiatives and consistently informed about ESG efforts and progress. This communication can occur through various channels, such as annual reports, ESG disclosures, and other relevant communication platforms. Additionally, working collaboratively with suppliers and partners is essential to ensure their adherence to ESG principles. This may involve the establishment of ESG guidelines for suppliers and conducting regular audits of their practices.

Building on the considerations presented earlier in the article, the author proposes a method for incorporating ESG considerations into the Balanced Scorecard (BSC) of an FMCG company operating in the hot drinks market (hereafter referred to as "the Company"). The assessment of the Company's operations should extend beyond traditional financial metrics to encompass its environmental and social impact. The ESG-adjusted BSC should serve as a comprehensive and operational formulation of the Company's strategy, seamlessly integrating ESG goals with budgeting and control processes. This approach ensures that every manager develops a thorough, strategically aligned understanding of ESG targets. For the ESG-adjusted BSC to be effective, it must include measurable financial, environmental, and social targets that the Company strives to achieve. By doing so, ESG considerations are not only recognized but are fully integrated into the broader strategic and operational framework of the organization. The following group of measures can be proposed to make the adjustment of the BSC with ESG drivers more concrete [21]:

- Disclosure, measurement, and management of greenhouse gas emissions
- Integration of environmental factors into the supply chain and cooperation with suppliers
- Rights, health, and safety conditions of workers
- Involvement in the local community and support of local infrastructure
- Boardroom diversity

The combination of non-financial ESG indicators and traditional financial indicators allows the overall economic performance of FMCG companies to increase [60,61].

5.1. Financial Perspective

ESG considerations, as previously discussed in the article, exert a considerable impact on a company's financial perspective. Companies that prioritize ESG initiatives can enhance their financial performance, mitigating risks and attracting long-term investors. Consequently, ESG issues emerge as potential drivers for economic benefits, particularly in areas such as risk management and cost reduction, encompassing raw-material costs and water or carbon usage. Identifying and managing ESG risks is crucial, as these risks can significantly influence a company's financial performance and reputation. Incorporating ESG considerations into a company's risk management framework is essential for mitigating potential risks and ensuring long-term success. Therefore, prioritizing ESG can serve as a risk mitigation strategy, helping the FMCG company analyzed in this article avoid potential risks such as reputational damage, regulatory fines, and supply chain disruptions while effectively managing these risks and enhancing overall resilience. Measures implemented from the financial perspective should, therefore, support the following objectives:

- Sustainability-related costs and savings
- Capital costs reduction by attracting long-term investors that prioritize sustainability and social responsibility
- Social and environmental impact on financial performance
- Support for long-term value creation by fostering the development of a sustainable, green product portfolio
- Establishment of a more sustainable and socially responsible business model
- Cost reduction through measures such as energy efficiency or waste reduction initiatives

Moreover, by incorporating ESG considerations into their overall strategy, the analyzed company can attract new long-term investors who prioritize sustainability and social responsibility [32,62,63]. Investments in ESG performance, guided by environmental, social, and governance criteria for assessing long-term impacts, are gaining interest among next-generation clients [64,65]. The integration of ESG performance perspectives into business strategy contributes to improved economic results for companies, fostering an enhancement of competitive advantage and corporate reputation [66–69].

5.2. Customer Perspective

Customers express growing concern about the environmental impact of the products and services they purchase and expect transparency from FMCG Company in areas such as sustainability and social responsibility. Measures implemented from the customer perspective should, therefore, support the following objectives:

- Reduction of the environmental footprint of their offerings—sustainable products and services
- A shift in transparent communication toward sustainable and responsible business practices
- Development of the positive impact of the company's products and services on the natural environment and society
- High customer satisfaction with sustainability initiatives and perceptions of the company's social responsibility

Companies must deepen their understanding of the environmental footprint of their products and services, developing strategies to minimize this impact and effectively communicate these efforts to customers. With the growing demand for sustainable offerings, it is crucial for companies to not only understand customer preferences for environmentally responsible products but also to align their offerings accordingly. Integrating ESG considerations into the broader business strategy is a critical step in differentiating the company from competitors. This strategic alignment enables the company to attract a larger share of environmentally conscious consumers and investors. By meeting evolving customer expectations, the company also positions itself in line with the broader societal shift toward sustainable and responsible business practices. This approach not only enhances customer satisfaction but also strengthens the company's competitiveness and appeal to sustainability-oriented stakeholders.

Given the expanding scope of stakeholder expectations, it is recommended that the "customer perspective" within the BSC be renamed the "stakeholder perspective". This adjustment better reflects the value each stakeholder expects from their relationship with the company. As companies increasingly compete in the sustainable development arena, a new strategic value is emerging. Corporate goals are now extending beyond internal processes to encompass the entire value chain, and a company's commitment—or lack thereof—to sustainable practices will become a key factor in consumers' purchasing decisions. Similar to the pivotal role large customers play in supply chains and business relations, growing consumer awareness of sustainable development is particularly impactful in the consumer goods sector.

5.3. Business Processes Perspective

The business processes perspective is widely recognized as a critical domain that must excel to deliver value to all stakeholders. ESG considerations have a significant impact on a company's internal processes, particularly in areas such as supply chain management and resource optimization. Environmental and social factors play a pivotal role in shaping decisions regarding supply chain partners. It is important to consider how the company's offerings can address ESG issues. Measures implemented from the business processes perspective, therefore, should support the following objectives:

- Implementation of compensation schemes designed to reward ESG performance, including social and environmental targets.

- Development of measures supporting the identification and assessment of ESG-related risks and implementation of the strategies to mitigate them.
- Switching to renewable energy sources that can significantly reduce GHG emissions. Companies can install photovoltaic panels or windmills or invest in biogas systems to meet their energy needs.
- Improvement of the energy efficiency of buildings and infrastructure that can generate significant savings and reduce carbon footprint. Companies can invest in thermal insulation, energy-saving lighting, advanced energy management systems, or intelligent technological solutions.
- Effective resource management supports the reduction of the consumption of energy, water, and other raw materials by improving production processes, investing in energy-saving technologies, waste reduction, monitoring and optimizing resource use.
- Development of resilience sustainable supply chains by partnering with suppliers that have a strong commitment to environmental issues.
- FMCG companies can also promote and give preference to local deliveries (nearshoring, reashoring) that require less transportation and shift into long-term relationships with pricing that promotes carbon-neutral production and distribution, poverty alleviation, and ethical employment practices [31].
- Responsible sourcing and the promotion of regenerative agricultural practices to enhance sustainability and biodiversity.
- Eliminating deforestation from key supply chains, particularly in sectors such as agriculture, palm oil, soy, and cocoa.
- Development of packages being recyclable, reusable, or compostable and reduction of virgin plastic usage.
- Contribution to social development, particularly by supporting smallholder farmers, ensuring fair wages, and investing in local communities.
- Creation of inclusive workplaces, enhancing employee well-being, and fostering diversity and equal opportunities;
- Development of a sustainable disclosure process being compliant with relevant reporting standards and communication of ESG efforts to stakeholders through periodical reports.

By incorporating ESG considerations into the business processes perspective, a company can establish client-centric teams for problem-solving, encourage employees to participate in paid community service and charity activities, formalize family leave options, promote refugee or veteran hiring programs, and foster work-life balance through hybrid or remote work arrangements. It is essential to ensure that the business conduct of all employees and board members adheres to acceptable moral and ethical standards. Top management should implement adequate controls for measuring and disclosing non-financial ESG information. Internal and external disclosures must be well-defined, with robust internal process management focused on sustaining materiality, transparency, and validation as key criteria for disclosure. Evidence shows that corporate transparency regarding ESG information is positively associated with corporate efficiency [48].

5.4. Learning and Growth Perspective

The learning and growth perspective primarily focuses on intangibles, such as employee capabilities, information system capabilities, and organizational culture. The Company should initiate the process by conducting an ESG assessment to understand the current situation in this area and identify strengths and weaknesses in adapting to ESG requirements. The targets established within this perspective form the foundation for developing ESG performance in the company. Measures implemented from the learning and growth perspective, therefore, should support the following objectives:

- Initiatives in their sustainable development programs aimed at educating employees about climate change and involving them in specific actions.

- Acquisition of key competencies in the ESG domain, fostering internal competencies through the training of management staff and employees in the elements of an ESG-adapted strategy.
- Innovations related to research on more sustainable and eco-friendly products, redesigning packaging, reducing waste, and offering healthier products.
- Incorporation of ESG principles into product and service development process.
- Introduction of innovative technologies and solutions, enhancing the efficiency of enterprises in the context of green transformation.

ESG considerations can significantly impact a company's learning and growth, particularly in areas such as employee engagement and talent development. This involves the creation of a company culture that places a high value on sustainability and responsible business practices. Top management should create an environment conducive to analyzing how ESG can drive innovation in products and services, uncovering opportunities for sustainable product development, and devising new business models aligned with ESG values.

Empirical studies have demonstrated the relationship between corporate ESG initiatives and innovative performance [70,71]. The introduction of innovative technologies and solutions can contribute to enhancing the efficiency of enterprises in the context of green transformation. For instance, advanced monitoring and data analysis systems can assist in identifying areas with the most significant environmental impact and optimizing processes. Innovations related to research on more sustainable and eco-friendly products, redesigning packaging, reducing waste, and offering healthier product options are also expected. Acknowledging the crucial educational and motivational aspect, companies incorporate initiatives in their sustainable development programs aimed at educating employees about climate change and involving them in specific actions. These actions extend to areas such as energy efficiency in production processes (including the energy consumption of machines and devices, efficiency of production processes, and production planning over time) and buildings (e.g., heating and cooling technologies, thermal insulation, lighting). Additionally, sustainability programs encompass considerations related to paper usage, commuting to work, business trips, and the utilization of a company fleet of vehicles.

Targets established in the learning and growth perspective should encompass the acquisition of key competencies in the ESG domain, fostering internal competencies through the training of management staff and employees in the elements of an ESG-adapted strategy, and necessary activities undertaken by the company. This includes a specific focus on the commercial utilization of climate competitiveness and involving a broad spectrum of employees in initiatives related to building it. This involvement serves as a crucial element in cultivating employer commitment and fostering positive employer branding for the Company. Employees must be incentivized to assume a central role in identifying opportunities to enhance efficiency and implement changes within the organization.

Strategy, understood as a hypothesis about the future operations of an enterprise, should articulate a response to potential structural changes in its business environment. While the strategic framework is designed for long-term direction, its operationalization often unfolds over shorter intervals, with strategic goals segmented into annual targets using the Balanced Scorecard (BSC). In summary, integrating ESG into the BSC provides a comprehensive framework for managing and monitoring the company's sustainability initiatives, directly linking them to both strategic and operational outcomes. This integration enables businesses to achieve financial success while upholding social responsibility, fostering long-term resilience and alignment with evolving sustainability goals. By incorporating ESG considerations into the BSC, the company can ensure that its activities align with strategic objectives, contributing to a more sustainable and socially responsible future. In this context, the evolving business landscape underscores the importance of defining a robust strategy to navigate these changes effectively.

When analyzing empirical examples of incorporating ESG elements into the strategies of companies, the following benefits of integrating ESG aspects into the operationalization of strategy have been identified [10]:

- Enhanced stakeholder and community perception
- Reduction in energy and water consumption
- Achievement of circular economy objectives
- Increased consumer awareness that products meet comprehensive environmental standards
- Easier access to new business partners and capital markets
- Improved employee motivation and development through training initiatives
- Clearer assignment of responsibility for ESG aspects within the company
- Contribution to biodiversity protection

Referring to specific examples of FMCG industry leaders presented in Section 4, notable benefits from operationalizing their ESG strategies can be observed. Unilever, for instance, aims to source all agricultural raw materials sustainably by 2025. This commitment is integrated into its strategic targets, allowing progress monitoring and timely strategy adjustments. Unilever also has ambitious goals for reducing plastic waste, with plans for all its packaging to be recyclable or reusable by 2025. These initiatives have bolstered the company’s market share and reputation among environmentally conscious consumers.

Nestlé provides another compelling case of effective ESG integration into corporate strategy. By 2023, the company had achieved a 13.5% reduction in greenhouse gas emissions compared to its 2018 baseline while continuing to grow its business. Nestlé has aligned its growth with its emissions reduction targets, proving that sustainability and expansion can coexist. Additionally, the company sourced 15.2% of its raw materials from farmers practicing regenerative agriculture, with a goal of reaching 20% by 2025. Furthermore, 91.9% of the electricity used in Nestlé’s global manufacturing sites comes from renewable sources. Nestlé’s adoption of an ESG-adjusted strategy operationalization demonstrates how FMCG companies can effectively incorporate sustainability into their core strategies. The company’s achievements in emissions reduction, sustainable sourcing, and renewable energy transitions illustrate the tangible benefits of such an approach. As consumer demand for transparency and accountability continues to grow, Nestlé’s experience offers valuable insights for other companies aiming to align their operations with ESG principles while driving long-term growth.

Unilever serves as a prime example of how FMCG companies can successfully integrate sustainability into their operations by structuring strategy operationalization around key performance indicators (KPIs) aligned with sustainability objectives. These KPIs encompass:

- Environmental Goals: Metrics related to reducing greenhouse gas emissions, advancing sustainable sourcing practices, and improving waste management
- Social Goals: Initiatives focused on enhancing employee well-being and fostering community engagement
- Governance Goals: Ensuring transparency in reporting and strict adherence to ethical standards

The Lavazza Group has successfully integrated an ESG-adopted operational strategy, advancing its sustainability efforts and aligning its operations with environmental, social, and governance (ESG) goals. This approach has provided substantial evidence of Lavazza’s commitment to sustainable coffee production and corporate responsibility, leading to positive impacts on performance. Lavazza has set a goal for 71% of its packaging to be fully recyclable by 2025, with 65% already meeting this target in 2023, demonstrating a proactive stance in reducing environmental impact and appealing to eco-conscious consumers. The company achieved carbon neutrality for all activities across manufacturing plants, offices, flagship stores, and company vehicles in 2020, and several product lines are now fully carbon neutral. Lavazza also invests in supporting coffee growers through agricultural training and resources, distributing 11,700 coffee plants and 4600 forest trees to producers in

2022, promoting biodiversity and sustainable practices. Additionally, initiatives to improve water management in coffee-growing regions, including the installation of clean drinking water systems, enhance local communities' quality of life. By focusing on sustainability, Lavazza is well-positioned to meet evolving environmental regulations and strengthen its corporate responsibility.

The Schwarz Group, the parent company of retail brands like Lidl and Kaufland, has successfully integrated an ESG-adopted strategy operationalization to drive its sustainability agenda. This approach has produced tangible evidence of the company's dedication to environmental, social, and governance (ESG) commitments. In September 2024, the Schwarz Group set a joint net-zero emissions target through the Science Based Targets initiative (SBTi), aiming for net-zero emissions across its entire value chain by 2050. Interim targets include reducing operational emissions (Scope 1 and 2) by 48% by 2030, compared to a 2019 baseline. Additionally, they plan to reduce emissions in agriculture and forestry by 42.4% and in energy and industrial processes by 35% by 2034. By 2023, the company generated 598,700 megawatt-hours of renewable energy, supported by photovoltaic systems spanning over 4 million square meters, significantly lowering their reliance on fossil fuels and positioning them as a leader in sustainable retail practices. The Schwarz Group has also made substantial progress in reducing plastic usage. Since 2017, they have reduced plastic in private-label packaging by 34%, surpassing their initial target of 30% by 2025. Furthermore, they increased the recycled content in plastic packaging to 19%, with a goal of 25% by 2025. The company's "Reset Plastic" strategy, focused on circular economy principles, promotes resource conservation and recycling throughout its supply chain.

The REWE Group, a leading entity in the retail and wholesale sector, has successfully implemented an ESG-focused strategy to enhance its sustainability initiatives, aligning operations with environmental, social, and governance (ESG) goals. This approach has had a positive impact on the company's performance. REWE is committed to achieving climate neutrality by 2040, tracking progress through metrics on emissions reduction and energy efficiency. By 2023, over 80% of its electricity came from renewable sources, and the company is working to cut food waste by 50% by 2030 through comprehensive waste management strategies. Furthermore, REWE Group is focused on sourcing 100% of its private label products sustainably by 2025, with approximately 70% already meeting these sustainability standards as of 2023. By actively pursuing sustainability and transparently reporting progress, REWE has strengthened its reputation among environmentally conscious consumers, leading to increased customer loyalty and market share.

Woolworths Group has established ambitious targets to reduce its Scope 1 and 2 emissions by 60% by 2030. In the latest reporting period, the company achieved a 36% reduction from its baseline. This effort is part of a broader climate strategy that includes transitioning its home delivery fleet to electric vehicles (EVs), with the introduction of 27 electric trucks in Sydney and plans to replace a total of 1200 delivery trucks. Acknowledging that Scope 3 emissions (those arising from the supply chain) far exceed its Scope 1 and 2 emissions, Woolworths has launched a value chain emissions program, which achieved 90% participation from suppliers in high-emission food categories. This engagement is critical for addressing the larger carbon footprint associated with sourcing and production. Additionally, Woolworths aims to halve food waste by 2030 by partnering with suppliers and local charities to redistribute surplus food. This initiative not only combats food insecurity but also reduces the volume of waste sent to landfills, reflecting the company's commitment to social responsibility. Woolworths Group has also issued sustainability-linked bonds, tying the bonds' interest rates to the company's performance against specific ESG targets, particularly in reducing greenhouse gas emissions. This innovative financing mechanism aligns financial incentives with sustainability goals, underscoring the company's long-term commitment to environmental responsibility.

6. Concluding Remarks

The anticipated deepening of changes in the management practices of FMCG companies will necessitate a proactive strategic overhaul of their core activities to remain competitive in a sustainability-driven landscape. The author advocates for redefining operations and customer engagement to ensure future profitability amid ESG challenges. Key proposed changes are deemed essential for enhancing market success and competitiveness. The author highlights the need for adjustments to the Balanced Scorecard (BSC) perspectives to align with sustainable practices, recognizing the transformation of core activities as a significant challenge for FMCG companies. By integrating ESG considerations into their strategies, these companies can improve risk management, foster innovation, enhance their reputation, and ensure regulatory compliance. This multifaceted approach not only promotes operational efficiency but also advances sustainability, mitigates risks from future environmental regulations, and establishes a reputation for environmental responsibility, thereby positioning companies for long-term success in a dynamic business environment.

ESG considerations directly influence capital allocation, product and service development, and ultimately, the overall structure of the global FMCG sector. The recognition of this increased risk exposure necessitates proactive measures, requiring a fundamental shift in the strategic approach of FMCG companies and its subsequent operationalization within the BSC perspectives. As a result, a discernible transformation is unfolding within the FMCG industry, reshaping the profitability of value chains as customers express new expectations. In response to ESG requirements and opportunities in the business environment, the Balanced Scorecard of an FMCG company should be adapted to ensure better alignment with sustainability goals. These adjustments must integrate ESG considerations into four main perspectives—financial, customer, business processes, and learning and growth—providing the FMCG company with strategic resilience and competitive advantage. The key findings of the study presented in this article are outlined below:

- Financial Perspective: Incorporating sustainability-related costs and savings, promoting long-term value creation via green products, and leveraging “green financing” to support business transformation and decarbonization. This perspective should focus on reducing capital costs by attracting sustainability-minded investors and ensuring that ESG performance drives financial benefits.
- Customer Perspective: Responding to the growing demand for sustainable products by reducing the environmental footprint, ensuring transparent communication about ESG initiatives, and enhancing customer satisfaction through responsible business practices. By doing so, companies can attract environmentally conscious consumers and investors.
- Business Processes Perspective: Aligning supply chain management and resource optimization with ESG goals, including renewable energy use, sustainable sourcing, and carbon-neutral operations. Investments in energy efficiency, ethical sourcing, and community engagement should be integral, with clear strategies for managing ESG risks and increasing operational efficiency.
- Learning and Growth Perspective: Supporting the workforce through diversity and inclusion initiatives, offering ESG-related training, and incorporating ESG goals into employee compensation. This encourages organizational alignment with ESG objectives, fostering an ethical and inclusive culture that underpins the company’s long-term sustainability.
- An essential adjustment involves renaming the Customer Perspective to a broader Stakeholder Perspective, emphasizing engagement with all stakeholders, including consumers, regulators, and communities. The revised BSC will integrate ESG-specific metrics to drive sustainability initiatives, addressing climate risks, consumer demand for sustainable products, and long-term value creation. This integration ensures that FMCG companies maintain competitive advantage, comply with regulations, and adapt flexibly to market shifts, promoting long-term success through sustainable practices.

The ESG-adopted strategy operationalization in leading FMCG companies, such as Unilever, Nestlé, Lavazza, Schwarz Group, REWE Group, and Woolworths Group, has demonstrated significant efficiency in integrating sustainability into their operations. These companies have successfully aligned key performance indicators (KPIs) with ESG goals, resulting in tangible benefits like emissions reduction, sustainable sourcing, waste reduction, and increased use of renewable energy. Unilever's progress in plastic waste reduction and Nestlé's emission-cutting measures, alongside Lavazza's carbon neutrality achievements, highlight the strategic effectiveness of ESG-driven initiatives. Woolworths' electric vehicle transition and sustainability-linked bonds further illustrate the financial and operational advantages of embedding ESG into core strategies. Through transparent reporting and measurable sustainability targets, these companies have not only enhanced their environmental performance but also strengthened their market position, consumer trust, and long-term resilience.

The examples discussed in the article of the operationalization of strategies taking into account ESG allow for the conclusion that the ESG-adapted BSC must integrate measurable environmental, social, and governance (ESG) targets alongside traditional financial metrics, promoting transparency, resilience, and stakeholder engagement. This approach ensures long-term success in an increasingly sustainability-driven market. Implementing ESG principles requires a fundamental mindset shift, as companies must adopt new operating models, tools, and processes to integrate ESG seamlessly into strategic decision-making, a function facilitated by the Balanced Scorecard. Analyzing the long-term impact of sustainable transition on FMCG companies' strategies influences key decisions related to production technologies, product specifications, and the selection of suppliers for raw materials and packaging. The author demonstrates that the BSC is a valuable tool for operationalizing ESG strategies in FMCG companies, which must adopt a long-term approach to adapt their strategy for continued operations and future profitability while addressing ESG requirements. These requirements stem from increasing pressure from investors, customers, and society, pushing companies to engage in more sustainable operations that mitigate climate change. The article's findings suggest that proactively adjusting strategy and operations in line with ESG principles is essential for companies to navigate the evolving business landscape successfully. The results of the study on the strategic directions of FMCG leaders and the feasibility of augmenting the Balanced Scorecard with sustainability-related strategic objectives support the conclusion that the research hypothesis presented in the Introduction is valid.

The article primarily focuses on the FMCG sector, which may limit the generalizability of its findings to other industries with different operational structures, environmental impacts, and stakeholder dynamics. However, the inferences and recommendations regarding the operationalization of ESG-adapted strategies through the BSC can also be applied to companies outside the FMCG sector, giving the approach a broader, more universal relevance. The study emphasizes internal processes and strategies but places less focus on external factors, such as evolving regulatory environments or global variations in ESG standards, which can significantly influence the implementation of ESG strategies. Moreover, while the article highlights key ESG measures, the dynamic nature of ESG criteria, shaped by shifting societal expectations and regulatory developments, may pose challenges for long-term strategic alignment. In conclusion, the article makes important theoretical contributions, though it would benefit from further empirical research, sector-specific comparisons, and a more detailed examination of external ESG factors that impact corporate strategy.

Summing up the above considerations, it can be stated that this article contributes to the research on ESG-adjusted Balanced Scorecards and strategy operationalization in the FMCG sector. Its key findings include demonstrating how ESG considerations can be seamlessly integrated into the BSC, which is traditionally focused on financial and operational performance. This integration is valuable as it operationalizes ESG principles, making them more actionable and measurable within the strategic frameworks of FMCG companies. By addressing environmental, social, and governance factors, the article provides a holistic approach to sustainability in business strategy. This broadens the conventional scope of strategic management and BSC frameworks, positioning sustainability not only as a source of risk but also as a driver of innovation and competitive advantage. The work contributes to understanding how FMCG companies can future-proof their operations by aligning with global ESG trends while offering practical insights into how the sector can adapt its core activities, supply chains, and customer engagement strategies in response to the growing importance of ESG factors. In summary, the article enriches the research field by offering a detailed framework for integrating ESG into the BSC and operationalizing sustainability strategies in the FMCG sector, with broader implications for other industries. It advances the discussion on how businesses can align profitability with environmental and social responsibility.

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