

SUSTAINABILITY ACCOUNTING AND ITS APPLICATION IN ALBANIA

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Abstract

Sustainability accounting is an emerging and evolving field of accounting that focuses on measuring, reporting, and managing the social, environmental, and economic impacts of corporate activities. This form of accounting helps organizations monitor and assess their performance in relation to sustainability and communicate their commitment to sustainable development to stakeholders. Over time, sustainability accounting has become a key instrument for companies seeking to meet legal requirements, enhance their image, and increase opportunities for green investment. International frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) have provided guidance for reporting on Environmental, Social, and Governance (ESG) factors, allowing companies to measure and report their impacts in a comparable and reliable manner. Globally, the development of sustainability accounting has profoundly changed the way organizational financial and social performance is measured and evaluated.

However, implementing these practices remains challenging, particularly in developing countries such as Albania, where a clear legal framework and institutional support are crucial for sustainable economic development. This paper explores the concept of sustainability accounting, the challenges and opportunities it presents, and its significance for global economies and businesses, with a special focus on its application in Albania.

Keywords: Sustainability accounting, environment, society, economy, financial reporting.

JEL Classification: M41, Q56, G32, O13.

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1. Introduction

Sustainability accounting is a relatively new field of accounting that has gained significant importance in recent decades due to the need to address global challenges related to the environment, society, and economic development. This type of accounting focuses on measuring and reporting the impacts companies have on the three main pillars of sustainability — the environmental, social, and economic aspects — also known as the Triple Bottom Line (TBL).

Unlike traditional accounting, which primarily focuses on financial performance, sustainability accounting prioritizes information related to the use of natural resources, employee treatment, community engagement, and the management of environmental risks.

Within this framework, the concept has also gained increasing importance in government policies and in countries striving for sustainable development. For Albania, as a developing nation, the implementation of sustainability accounting provides significant opportunities to improve the performance of various economic sectors and to align with international standards for environmental protection and social development.

The purpose of this paper is to examine and analyze the concept of sustainability accounting and its relevance to businesses and global economies, with a special emphasis on the application of this concept in Albania. The study aims to provide a detailed overview of international sustainability accounting frameworks and standards, including GRI and SASB, and to explore how these standards can be applied and adapted within the Albanian context.

Through the analysis of international practices and case studies, the paper identifies the opportunities and challenges that Albania may face during the implementation of sustainability accounting, emphasizing the importance of developing a clear legal framework and institutional support. Moreover, it discusses how sustainability accounting can contribute to enhancing investor confidence, improving corporate reputation, and creating opportunities for green investments in Albania.

Finally, the paper aims to offer recommendations for improving sustainability accounting practices in Albania and highlight the importance of integrating such practices into corporate management strategies to ensure sustainable development and promote social and environmental responsibility.

2. Structure of the Paper

This paper will include a theoretical analysis of sustainability accounting, an overview of international practices, a review of the current situation in Albania, as well as an assessment of the challenges and opportunities facing Albanian businesses.

3. Literature Review

Sustainability accounting is a discipline concerned with the measurement, monitoring, and reporting of an organization's environmental, social, and governance (ESG) impacts. This type of accounting is closely linked to the concept of the Triple Bottom Line (TBL), which has been a fundamental model in sustainability management literature and encompasses performance measurement across economic, social, and environmental dimensions (Elkington, 1997). Sustainability accounting serves as a powerful tool for ensuring that companies contribute to sustainable development and meet the expectations of various stakeholders, including investors, consumers, and regulators. One of the major developments in the field of sustainability accounting has been the creation of international standards that support ESG reporting. The Global Reporting Initiative (GRI) is one of the leading organizations that has developed frameworks and standards for sustainability reporting. GRI has promoted transparent reporting of environmental and social impacts and has been widely adopted by global companies to ensure sustainability in their operations (GRI, 2016). This methodology has also been used to assess the effects of corporate interventions on the environment, society, and the economy.

According to Epstein and Buhovac (2014), sustainability accounting practices also help enhance corporate reputation and can lead to increased opportunities for green investment, as companies benefit from supportive government and regulatory policies for sustainable activities. Elkington (1997) emphasizes that the TBL concept is a key element in

sustainability measurement, providing a framework for integrating factors such as natural resource management, improved working conditions, and greater social engagement by companies. Another well-recognized framework is the Sustainability Accounting Standards Board (SASB), which provides industry-specific standards to help companies report their environmental and social impacts in a measurable and comparable manner (SASB, 2021). The International Financial Reporting Standards (IFRS) have also played an essential role in the implementation of international standards for both financial and sustainability reporting, making it easier to compare the financial and environmental performance of companies globally (IASB, 2019). In many developing countries, the implementation of sustainability accounting is still in its early stages. Studies such as Almeida and Ferreira (2012) in Portugal suggest that the application of sustainability accounting can enhance company performance by enabling more efficient use of natural resources and reducing negative environmental impacts. However, in most cases, sustainability practices remain voluntary rather than mandatory, and their implementation largely depends on government and regulatory support. In Albania, sustainability accounting is still a relatively new concept, but it has begun to gain attention due to European Union (EU) policies and the need to meet international standards for environmental protection and social development. The report “Albania and Sustainable Development” (2019) by the Ministry of Environment indicates that the Albanian government has taken significant steps to promote sustainable development and provide support for sectors that contribute to renewable energy and sustainable use of natural resources. Albania has substantial opportunities to utilize sustainability accounting practices to promote green investment and sustainable development. According to the World Bank (2021), countries investing in sustainable development can achieve long-term economic benefits, such as increased employment and the growth of emerging sectors, including renewable energy and clean technologies. Similarly, the European Bank for Reconstruction and Development (EBRD, 2020) highlights Albania’s potential in fostering sustainable investments, including support for companies that adopt sustainability accounting practices. One of the main challenges remains the lack of a clear legal and regulatory framework for sustainability accounting. The Institute of Certified Auditors of Albania (ICAA, 2020) suggests that Albania needs a dedicated law on sustainability reporting to ensure that its accounting practices align with those of the European Union and international standards. The literature further suggests that an important intervention would be the development of a national strategy to promote sustainability accounting in Albania, including support for the education and training of accounting and management professionals. Kolk and Mauser (2002) emphasize the importance of the engagement of professionals and governments to ensure that sustainability accounting practices are effectively implemented and produce positive outcomes for both businesses and society.

Additionally, it is crucial to encourage companies to report their environmental and social impacts transparently and to adopt international frameworks and standards to ensure credibility and cross-country comparability. Sullivan and Mackenzie (2007) argue that the implementation of these standards can strengthen investor confidence and improve corporate performance in global markets. Sustainability accounting is a discipline concerned with the measurement, monitoring, and reporting of an organization’s environmental, social, and governance (ESG) impacts. This type of accounting is closely linked to the concept of the Triple Bottom Line (TBL), which has been a fundamental model in sustainability management literature and encompasses performance measurement across economic, social, and environmental dimensions (Elkington, 1997). Sustainability accounting serves as a powerful tool for ensuring that companies contribute to sustainable development and meet the expectations of various stakeholders, including investors, consumers, and regulators. One of the major developments in the field of sustainability accounting has been the creation of international standards that support ESG reporting. The Global Reporting Initiative (GRI) is one of the leading organizations that has developed frameworks and standards for sustainability reporting. GRI has promoted transparent reporting of environmental and social impacts and has been widely adopted by global companies to ensure sustainability in their operations (GRI, 2016). This methodology has also been used to assess the effects of corporate interventions on the environment, society, and the economy.

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4. Aspects of Sustainability Accounting

Sustainability accounting encompasses three fundamental aspects that represent its core pillars and are closely linked to environmental, social, and economic sustainability. These dimensions are essential for understanding the impact of a company’s activities on the environment, society, and the economy, as well as for assessing performance in these areas.

4.1. The Environmental Aspect

The environmental aspect focuses on the impact that a company has on the natural environment and its use of natural resources. It involves monitoring, measuring, and reporting

environmental effects, as well as evaluating corporate practices aimed at minimizing negative environmental impacts.

Environmental issues are increasingly significant, as addressing climate change and protecting natural resources are critical for achieving sustainable development.

Key indicators and areas of focus under the environmental dimension include:

- Greenhouse gas (GHG) emissions and their reduction strategies.
- Waste management and recycling, including how waste is handled and the efficiency of recycling practices.
- Reduction of energy consumption and transition to renewable energy sources.
- Management of natural resources, such as water, energy, and raw materials, to ensure sustainable use.
- Biodiversity protection and prevention of harmful effects on local and global ecosystems.

The main objective of the environmental aspect is to ensure a balance between economic growth and environmental preservation, making the company more responsible and sustainable over time.

4.2. The Social Aspect

The social aspect of sustainability accounting focuses on a company's impact on society and individuals, including employees, local communities, and other stakeholders. It encompasses corporate responsibilities in areas such as labor rights, gender equality, occupational health and safety, and community development.

This dimension is crucial to ensuring a fair and inclusive society, where all individuals are respected and supported.

Key indicators and focus areas under the social dimension include:

- Working conditions and employee treatment, ensuring safe and fair work environments, equitable pay, and opportunities for professional growth.
- Diversity and inclusion, by creating equal opportunities for all social groups and strengthening gender and racial equality.
- Corporate social responsibility (CSR), through investment in local communities and socially sustainable development.
- Human rights protection, ensuring that business operations respect human rights and do not contribute to their violation.
- Health and safety at work, by providing safe workplaces and promoting employee well-being.

The goal of the social aspect is to ensure that corporate activities support societal development while maintaining and improving the well-being of individuals and communities.

4.3. The Economic Aspect

The economic aspect of sustainability accounting focuses on a company's financial performance and long-term viability. This is a critical issue since no organization can be sustainable in social and environmental terms without a solid economic foundation.

It involves strategies for resource and risk management, as well as for creating new opportunities for growth and innovation.

Key indicators and focus areas under the economic dimension include:

- Profitability and financial performance, by measuring profits, revenues, and long-term financial stability.
- Commitment to sustainable investment that supports innovation and technology over the long term.
- Compliance with financial and tax regulations to ensure legal and ethical business operations.
- Sustainable returns for shareholders, considering both risks and opportunities associated with sustainable growth.
- Cost reduction and resource efficiency, to create long-term economic benefits.

The goal of the economic aspect is to ensure economic development that supports the company's sustainable growth, guaranteeing financial success and long-term stability.

A successful integration of these three aspects, environmental, social, and economic, is key to achieving sustainability within an economic entity.

Organizations that effectively manage their impacts across these dimensions are better positioned to maintain a long-term competitive advantage and to contribute positively to both society and the environment.

This process promotes sustainable economic development for individuals and communities, reduces negative impacts on the planet through better management practices and sustainability-oriented infrastructure, and improves quality of life and opportunities for employees and communities through strong social inclusion and fair treatment.

Sustainability accounting thus serves as a powerful tool for ensuring that companies operate in a manner that is sustainable for all stakeholders — from investors and shareholders to employees and society at large.

4. International Case Studies on Sustainability Accounting

International case studies are essential for understanding how sustainability accounting is applied globally and how companies manage their environmental, social, and economic impacts. These cases provide valuable insights into the practice of sustainability accounting and serve as examples of how different frameworks and reporting standards can be implemented in real-world corporate contexts.

Below are selected international case studies based on existing literature, illustrating the application of sustainability accounting and its impact on corporate performance.

4.1. Unilever

Unilever is one of the world's largest fast-moving consumer goods companies and a global leader in implementing sustainability strategies. The company has integrated sustainability into its business model and adopted a comprehensive reporting system to manage and monitor its social and environmental impacts.

Unilever has applied an integrated approach that links sustainability with financial performance by adopting international standards such as GRI and SASB for reporting on environmental and social factors. The company's sustainability strategy focuses on sourcing renewable materials, reducing waste, and minimizing environmental footprints throughout its supply chain. A study conducted by The European Business Review (2020) analyzed Unilever's efforts to integrate sustainability into its management and reporting processes. The findings indicate that implementing a sustainability strategy has enhanced the company's corporate image, fostered innovation, and strengthened competitiveness in the global market. Unilever has significantly improved its environmental performance by reducing CO₂ emissions and lowering water consumption. The company has also supported its suppliers in improving sustainability practices, contributing to the development of local communities. By adopting international sustainability accounting standards, Unilever has achieved greater transparency and credibility in its reporting, reinforcing stakeholder trust and long-term value creation.

4.2. IKEA

IKEA, a global leader in furniture design and retail, has embraced sustainability as a core component of its business strategy. The company has implemented numerous initiatives to reduce environmental impacts while promoting social responsibility and employee welfare. IKEA uses the GRI and Task Force on Climate-related Financial Disclosures (TCFD) frameworks to ensure transparency regarding its environmental and social performance. It has prioritized reducing the use of harmful materials, improving supply chain sustainability, and transitioning toward renewable energy sources. A study published in Harvard Business Review (2019) examined how IKEA's sustainability strategy has influenced risk management and financial performance. The company has continuously measured and reported the social and environmental impacts of its processes, fostering accountability across its global operations. IKEA also supports its suppliers in adopting better sustainability practices by emphasizing the use of renewable resources and reducing carbon emissions (CO₂). Through its focus on sustainability, IKEA has developed innovative eco-friendly products, such as furniture made from recycled materials. This strategy has strengthened customer trust,

enhanced brand loyalty, and attracted investors seeking companies with strong sustainability credentials.

4.3. Patagonia

Patagonia, a globally recognized brand specializing in outdoor clothing and gear, has made sustainability an integral part of its business model. The company is well known for its strong environmental advocacy and commitment to using organic and recycled materials in its products. Patagonia follows GRI and SASB standards to ensure accuracy and transparency in sustainability reporting. It monitors resource usage and discloses detailed information about its environmental impacts, including efforts to use renewable energy and promote sustainable production processes. A study in the *Journal of Business Ethics* (2020) examined the role of sustainability accounting in Patagonia's marketing strategy and how it strengthened the company's brand identity and customer loyalty. Patagonia's detailed reporting on resource recycling and CO₂ emission reduction has positioned it as an industry leader in sustainability. The company's commitment to sustainability has helped drive sales growth and attract environmentally conscious consumers. Patagonia's investments in renewable energy and reduced use of non-recyclable materials demonstrate its contribution to global environmental protection. The above case studies show that adopting sustainability accounting has a significant impact on managing the social, environmental, and financial performance of companies. Firms that implement international standards and frameworks such as GRI, SASB, and TCFD achieve measurable improvements across multiple dimensions of their operations. Moreover, these companies foster stronger consumer and investor confidence, enhance long-term competitiveness, and contribute meaningfully to sustainable development. They provide valuable examples for other organizations worldwide seeking to integrate sustainability into their business and accounting practices.

5. Sustainability Accounting in Albania: Legal and Regulatory Framework

In Albania, sustainability accounting has begun to evolve in recent years, driven by global trends toward greater transparency and social and environmental accountability among businesses. Although the country is still in the early stages of developing sustainability accounting practices, several legal and regulatory frameworks—many inspired by international standards—play a crucial role in shaping this emerging field.

To better understand the state of sustainability accounting in Albania, it is important to examine the legal and institutional structures that support its development. One of the most important areas where sustainability accounting has gained ground in Albania is through the implementation of the International Financial Reporting Standards (IFRS). These standards are vital for ensuring the reliability of both financial and environmental information disclosed by companies. The IFRS framework requires companies to provide detailed information on the environmental and social impacts of their activities, including the risks and opportunities related to sustainability. These standards have been integrated into Albanian legislation and form an essential foundation for reporting and measuring performance related to sustainable development.

Companies operating in Albania that are required to follow IFRS must therefore also report on their sustainability practices and manage sustainability-related risks and opportunities. This approach facilitates the integration of environmental and social considerations into financial reporting and strengthens the connection between financial performance and sustainable outcomes. However, Albania's sustainability reporting legislation remains under development. Alignment with European Union (EU) legislation has been one of the main driving forces behind efforts to promote sustainability accounting in the country. For instance, the EU Corporate Sustainability Reporting Directive (CSRD)—which mandates companies to disclose information about their environmental, social, and governance (ESG) performance—is expected to directly influence Albania, especially since many Albanian companies operate within or are connected to EU markets. As a result, several Albanian companies with regional or European operations are beginning to recognize the importance of transparency and sustainability in their accounting and management practices.

Another relevant legal and institutional actor is the National Environmental Cleaning Agency, which monitors and promotes sustainable practices among companies and individuals whose activities may negatively affect the environment. Part of this framework includes environmental performance reporting, which obliges companies to monitor and disclose potential impacts such as pollution, greenhouse gas (GHG) emissions, and natural resource use. In addition, the Institute of Certified Auditors of Albania (ICAA) and the Association of Certified Accountants of Albania play important roles in promoting sustainability accounting practices. These organizations provide training and support to professionals engaged in the preparation of financial and sustainability reports, helping to ensure alignment with both national regulations and international standards. Albanian accountants and financial experts are encouraged to apply sustainability reporting principles that comply with global best practices, thereby enhancing the credibility and comparability of sustainability data. A particularly important sector for sustainability accounting in Albania is energy. The country possesses significant hydropower potential and a strong capacity for developing renewable energy sources. Albanian legislation has increasingly incorporated measures to monitor energy use and ensure that energy companies adopt sustainable practices in production and distribution. The EU Taxonomy for Sustainable Activities is another vital instrument that helps define which economic activities qualify as sustainable and are therefore eligible for green financing. Albania is currently working to align its national legislation with this framework, aiming to encourage investment and support long-term sustainable economic growth. Companies operating in Albania, especially those involved in the environmental and energy sectors, can benefit from this system by identifying and reporting sustainable activities, thereby gaining access to greater funding opportunities and investor support. In summary, although Albania's legal and regulatory framework for sustainability accounting is still evolving, there are clear and encouraging efforts to develop a more transparent and responsible reporting environment. The integration of international reporting standards such as IFRS and CSRD, as well as the promotion of sustainability practices in key sectors such as energy and environmental management, represent important steps toward ensuring sustainable growth and accountability.

6. Opportunities and Benefits for Albania from Sustainability Accounting

The implementation and development of sustainability accounting in Albania offer a wide range of opportunities and benefits for companies, economic sectors, and the national economy as a whole. By focusing on improving social, environmental, and financial performance, sustainability accounting can contribute to sustainable development and strengthen Albania's position in international markets. One of the main benefits of sustainability accounting is the enhancement of environmental and social performance across companies and economic sectors. By linking environmental and social outcomes with financial performance, businesses can reduce pollution, optimize the use of natural resources, and contribute to environmental preservation and sustainable growth. Through sustainability accounting, companies can also maximize the use of renewable energy, particularly in the energy sector, where Albania has substantial potential for diversification of energy sources. Another major benefit is the improvement of working conditions by promoting equality and opportunities for sustainable professional development among employees and communities. This contributes to creating a fairer labor environment and supports long-term social cohesion. In this way, Albania has the potential to become a successful model of sustainable development in the Western Balkans, helping to fulfill international commitments toward environmental protection and social progress. Sustainability accounting also creates opportunities for attracting green investments and increasing Albania's ability to participate in international financial markets. Investors are increasingly interested in companies that adopt sustainable practices and comply with environmental, social, and governance (ESG) principles. One of the most significant benefits for Albania is the increase in access to sustainable financing from international investors and financial institutions that seek to support projects with a positive environmental and social impact. Additionally, Albania could benefit from European Union (EU) subsidies and financial support programs, many of which are oriented toward promoting sustainability initiatives—especially in energy, environmental

protection, and rural development. This would allow Albania to create a favorable environment for the growth of sustainable industries and to strengthen its competitiveness in the global investment market. In an era when consumers are becoming more aware of the environmental and social implications of their purchases, sustainability accounting provides an opportunity for Albanian companies to improve their reputation and attract socially conscious customers. This can lead to increased customer loyalty, as modern consumers increasingly favor brands committed to sustainability and ethical values. Consequently, Albanian businesses can expand their market segments and benefit from a consumer base that values environmental and social responsibility. Sustainability accounting also offers an opportunity to strengthen local capacities and expertise in the fields of finance, accounting, and sustainability management. This can be achieved through professional training and education for accountants, auditors, and managers, enabling them to apply international sustainability reporting standards effectively. Capacity development at the institutional level—such as enhancing knowledge and practices related to sustainability management within government bodies and organizations—is equally important. Moreover, sustainability accounting presents significant opportunities for improving Albania's energy sector and green infrastructure, steering the economy toward the use of renewable resources.

Some of the key potential benefits include:

- Development of renewable energy projects, with investments in solar, wind, and hydropower, positioning Albania as a regional leader in renewable energy.
- Improvement of urban and rural infrastructure, through investments in sustainable energy systems, water management, and eco-friendly transport solutions.
- Advancement of the green economy, creating jobs and supporting long-term economic resilience.

By integrating sustainability accounting practices, Albania can also increase transparency in resource management and corporate performance. This would enhance trust in the private sector and ensure that businesses are committed to reporting accurate and reliable information regarding their environmental and social impacts.

Overall, sustainability accounting provides Albania with a pathway to achieving economic modernization, environmental responsibility, and social progress—three pillars essential for sustainable development and for aligning with European and global standards.

7. Conclusions and Recommendations for Sustainability Accounting in Albania

7.1 Conclusions

Sustainability accounting has begun to emerge as an important field for companies and economic sectors in Albania, although there is still room for improvement and development. Both companies and the public sector are starting to adopt better reporting practices concerning environmental, social, and governance (ESG) impacts. Most of the development in this field remains at an early stage and requires further commitment from all stakeholders. The implementation of International Financial Reporting Standards (IFRS) represents a significant step toward enhancing transparency and accountability. Although Albania has begun to adopt these standards, more effort and support are needed to ensure that sustainability accounting practices are properly implemented and aligned with international requirements. Albania has the potential to attract green investments and develop sustainable sectors, including renewable energy, agriculture, and infrastructure. The use of a clear framework for sustainability accounting could bring significant benefits by increasing opportunities for financing and sustainable development. There is a pronounced need in Albania to develop the capacities of accounting professionals and managers who can support the implementation of sustainability practices. Improving skills and providing training for these professionals would be an important step toward enhancing Albania's capacity to adopt and implement such practices effectively. The country also requires a clearer and more advanced legal and regulatory framework for sustainability reporting, including the potential establishment of a law on sustainability reporting aligned with European Union directives and international best practices.

7.2 Recommendations

Albania should continue improving its legal and regulatory framework to support the practice of sustainability accounting. This may include the establishment of a dedicated sustainability reporting law aligned with EU directives and requirements (such as the CSRD). Additionally, it is important to provide a clear framework for reporting ESG factors, making it mandatory for large companies and those operating in key economic sectors. Support for education and professional training is a critical area that requires ongoing programs to develop the capacities of accounting professionals and managers who can facilitate the implementation of sustainability reporting. Courses and training programs should be organized to provide in-depth knowledge of international sustainability reporting standards. Collaboration with international organizations and universities is also essential to develop educational programs that incorporate best practices in sustainability accounting. Albania should enhance conditions for attracting green investments, including the establishment of fiscal incentive systems for projects contributing to renewable energy development and the sustainable use of natural resources. Supporting the growth of emerging sectors such as solar, wind, and bioenergy is equally important to create opportunities for increased investment and sustainable employment. Companies should engage in ESG reporting to enhance transparency and business credibility. To this end, the implementation of best reporting practices, including the use of sustainability reporting systems, is recommended to ensure that information on environmental and social impacts is accurate and reliable. Mandatory sustainability reporting levels should also be established for large companies and those operating in key sectors such as construction, energy, and agriculture.

Small and medium-sized enterprises (SMEs) should be encouraged to implement sustainability practices. This can be achieved by providing financial and technical support to help them adopt sustainability standards. Developing policies that facilitate the implementation of sustainability practices for SMEs—by providing training and resources—is a particularly important recommendation. Sustainability accounting in Albania has the potential to contribute to the development of a sustainable economy and to enhance the transparency, credibility, and efficiency of Albanian companies. Despite the progress made so far, Albania needs to further improve its legal and regulatory framework, support the education and skills development of professionals, and encourage green investments and sustainable sector development. With coordinated commitment and an appropriate legal framework, Albania can leverage the opportunities offered by sustainability accounting to achieve sustainable development and benefit from global trends.

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