

# ESG as an opportunity and challenge: Strategies and leadership concepts

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# Content

- What is ESG?
- Which opportunities does ESG offer?
- What has to be done now?



# ESG is not new - global framework for a national sustainability strategy



## Paris Agreement (December 2015)

- Limiting global warming < 2 degrees
- Reduction of greenhouse gas emissions (no concrete target!)
- Alignment of financial flows and climate targets

➤ Ratified in November 2016

## United Nations (SDG\* 2016)

- Goals to ensure sustainable development at economic, social and environmental levels
- Duration until 2030
- Framework for German sustainability strategy

➤ UN statement in 2023: 2030 targets will not be achieved

# SDGs\* as a framework for German sustainability strategy

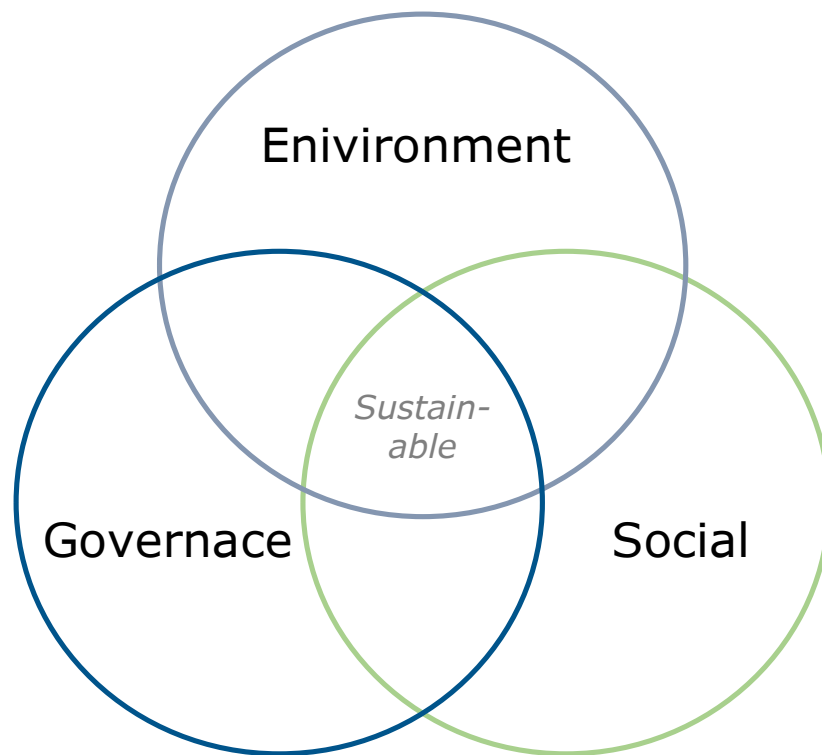


- 17 internationally identical SDGs with 167 targets
- Regular progress tracking
- 2020-2030 „Decade of Action“
- Less than 50% of German executives are aware of the SDGs (!)\*

Guiding principles of the sustainability strategy  
Ensuring economic, social and environmental compatibility

\*SDG = Sustainable Development Goals

# What does sustainability mean?



## Guiding principles of the German sustainability strategy

- „To satisfy the needs of the present without risking that future generations will not be able to satisfy their own needs.“
- „Preservation of the natural basis of life in a global perspective.“
- „a life in dignity for all.“
- „Economically efficient, socially balanced and environmentally sustainable development.“

(Source: Bundesregierung, Deutsche Nachhaltigkeitsstrategie 2021)

# Impact of the EU Green Deal



## Overarching objectives:

- Reduce CO<sub>2</sub>-emissions by 55% by 2030
- Completely emission-free continent by 2050



## The idea of the EU Action Plan:


1. Redirect capital flows towards sustainable investments to enable sustainable and inclusive growth
2. To manage financial risks arising from climate change, resource scarcity, environmental degradation and social problems
3. To promote transparency and long-term thinking in financial and economic activity

# Focus: CSRD (Corporate Sustainability Reporting Directive)



- Adopted by the EU Commission on 21.04.2021
- Scope/guidelines for sustainability reporting according to ESG
  - Through all large companies  
( > 40 million euros in sales, at least 20 million euros in total assets, > 250 employees)
  - Audit of reported information by auditors mandatory: initially only limited assurance
  - Use of EU standards (with sector-specific additions) for reporting (Taxonomy Directive)
  - Publication in the management report
  - Digital reporting mandatory (EU Central Database)

# Focus: CSRD (Corporate Sustainability Reporting Directive)

**Companies that are already subject to reporting requirements within the meaning of the CSR-RUG**

- Limited liability companies that both
  - 1.) **are large**, i.e. meet at least two of the three characteristics on the balance sheet date:
    - Total assets: at least € 20 million
    - Net sales: min. € 40 million
    - Avg. number of employees during the financial year: at least 250
  - 2.) **capital market-oriented**, as well as
  - 3.) employ an annual average of **more than 500 employees**
- Credit institutions and insurance undertakings, provided that they meet criteria 1 and 3



**Large companies that are not yet subject to reporting requirements within the meaning of the CSR-RUG**

- Limited liability undertakings, credit institutions and insurance undertakings operating on At least **two of the three criteria** at the balance sheet date:
  - Total assets: at least € 20 million
  - Net sales: min. € 40 million
  - Avg. number of employees during the financial year: at least 250



# ESG has a significant impact on companies' risk profile



- **Financial risk**

- Banking regulation and Sustainable Finance Disclosure Directive can make financing more difficult and/or more expensive

- **Disclosure risk**

- Extension of reporting obligations to SMEs with review obligation
- Non-compliance has a negative impact on reputation and financing

- **Supply chain risk**

- Ensure transparency and monitoring of production processes and HR standards
- Risk analysis and risk management of suppliers
- In case of non-compliance with the standards, risk of delisting and fines

- **Liability risk**

- Failure to comply with certain legal regulations may result in significant fines

## Summary: What is behind ESG?



- **ESG** stands for the targeted sustainable **transformation of the economy by 2030** with the criteria **E**=Environmental, **S**=Social und **G**= Governance
- The **politcal framework** for this transformation has **already been set** and is increasingly being fleshed out
- From **2025** more than **15,000 companies in Germany** will have to **report on their ESG-Strategie**
- **Neglecting** ESG issues can have a significant **impact** on **economic success, financing, talent acqusition** and **reputation**
- A **stronger fucus** on sustainability/ESG opens up **significant entrepreneurial opportunities**

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# ESG: What are the opportunities?



## 1. More growth

- Innovative, environmentally friendly products open up new sales markets
- Willingness to pay for environmentally friendly products increases noticeably
- Achieved competitive advantage strengthens market position, also for export
- Public contracting authorities and large companies pursue ESG-compliant procurement

## 2. Cost reduction

- Reduction of resource consumption (raw materials, energy, packaging material, etc.)
- Successful circular concepts reduce material costs in the long term
- Reduction of financing costs
- Sustainable image increases customer loyalty
- Higher employee retention reduces fluctuation



# ESG: What are the opportunities?



## 3. Increase profitability and value of the company

- Result of the evaluation of >2000 studies on profitability and ESG
  - Positive influence: 63%
  - Negative influence: 8%
- In the case of M&A transactions, missing ESG strategies/concepts lead to significant valuation discounts



## 4. Strengthening employee motivation and retention

- Attractive employer in the competition for talent
- Increase motivation and productivity with a convincing purpose
- Better performance through fair pay and diverse teams



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# What to do now? (1)



## Strategy

1. Make sure sustainability is anchored in your **vision, mission und purpose**
2. Develop a clear **strategy** and goals on sustainability together with your team (materiality matrix/materiality analysis)
3. Critically question your current **business model/product offering**
4. Develop **new ideas and models** around your core business
5. Enrich your **brand management** with the topic of sustainability

## Leadership

1. As **CEO** put yourself at the forefront of the initiative with a clear **commitment**
2. Ensure that you have appropriate **ESG competence** (seat and vote) at the **executive level** (management board/management or supervisory board/advisory board)
3. Integrate sustainability with clear responsibility in your **organization (competence and mandate)**
4. Integrate the goals into the bonus agreements
5. Communicate and celebrate **success**

## What to do now? (2)



### Management

1. Analyse where the biggest ESG challenges lie in your **processes**
2. Make sustainability a **quality criteria** of your products
3. Determine the **risks** that ESG poses to your business
4. Integrate ESG into your **risk management**

### Control

1. Provide **budget and resources** (competence)
2. Set clear, ambitious, transparent and **measurable goals** (KPI)
3. Set up a **ESG reporting** and request regular progress reports
4. Set ESG criteria for **investments** (including acquisitions)
5. Involve your **auditor** in the external reporting in good time



# How can VOIKOS help?



## ESG

### ESG materiality analysis

- Analysing and defining relevant topics and the need for action (materiality matrix)

### ESG strategy and communication

- Documentation of the ESG strategy and communication support (internal/external)

### ESG control and leadership concepts

- Development of company-specific concepts
- Implementation of management training

## Management Support

### Committee advice on ESG

- Supervisory Board/Advisory Board or Executive Board/Managing Director in the development and implementation of the ESG strategy

### Project control and implementation

- Support of internal resources and management of ESG and strategy projects

# Contact

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