



ESG as an opportunity and challenge: Strategies and leadership concepts

Dr. Felix Zimmermann

Content

- What is ESG?
- Which opportunities does ESG offer?
- What needs 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 specific 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

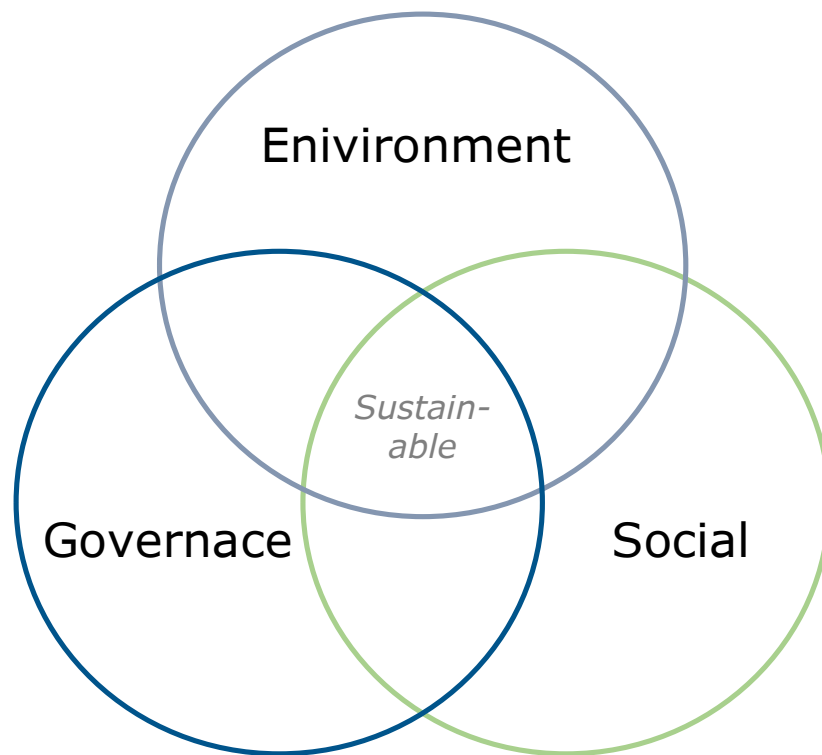


- 17 internationally identical SDGs with 167 targets
- Regular progress tracking
- 2020-2030 „Decade of Action“
- Less than 50% of German executives are aware of the SDGs (!)*

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 CO₂-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

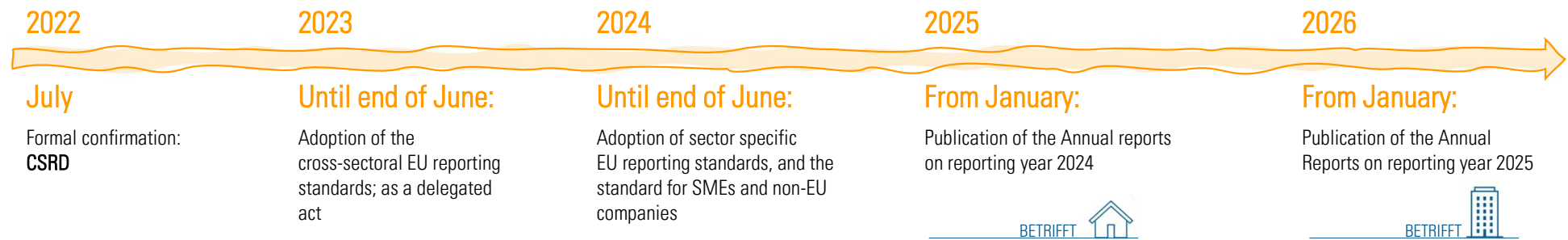
Focus: CSRD (Corporate Sustainability Reporting Directive)



Scope/guidelines for sustainability reporting according to ESG

- Through all large companies
(> 50 million euros in sales, at least 25 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
- Publication in the annual report
- Digital reporting mandatory (EU Central Database)

Fokus: 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 € 25 million
 - Net sales: min. € 50 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 € 25 million
 - Net sales: min. € 50 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's 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 sufficiently concrete
- From **2026** more than **15,000 companies in Germany** will have to **report on their ESG-Strategys**
- **Neglecting** ESG issues can have a significant **impact** on **economic success, financing, talent acquisition** 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 advantages strengthens market position, also for export
- Public 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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4 steps to create an ESG agenda



Double materiality analysis

- Identification of the relevant and essential topics that have an „impact“
- Goal: Reducing complexity and focusing

01



02



Integrate ESG into strategy

- Integration of key ESG measures and goals into the corporate strategy. (Start with „why“)
- Determination of a roadmap including KPIs for implementation

Metrics and data collection

- Determination of the relevant KPIs (ESRS)
- Decision on software tool and responsibilities

03



04



Reporting

- Setting up internal and external reporting (ESRS)
- Involvement of the auditors

**ESG
agenda**

Double materiality analyses



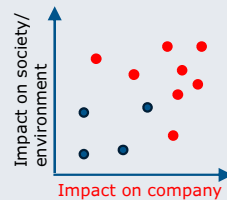
ESG viewed from two perspectives

Outside-In perspective:

How do sustainability issues impact your business/company?

Opportunities and/or risks that can significantly influence the course of your business, results or situation of the company.

- Corporate relevance
- Financial materiality



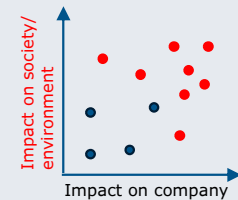
Outside-In

Inside-Out perspective:

How do your activities affect the society and the environment?

Positive and/or negative impact of your business activities and relationships, as well as products and services, on the company's external environment.

- Sustainability relevance
- Impact materiality

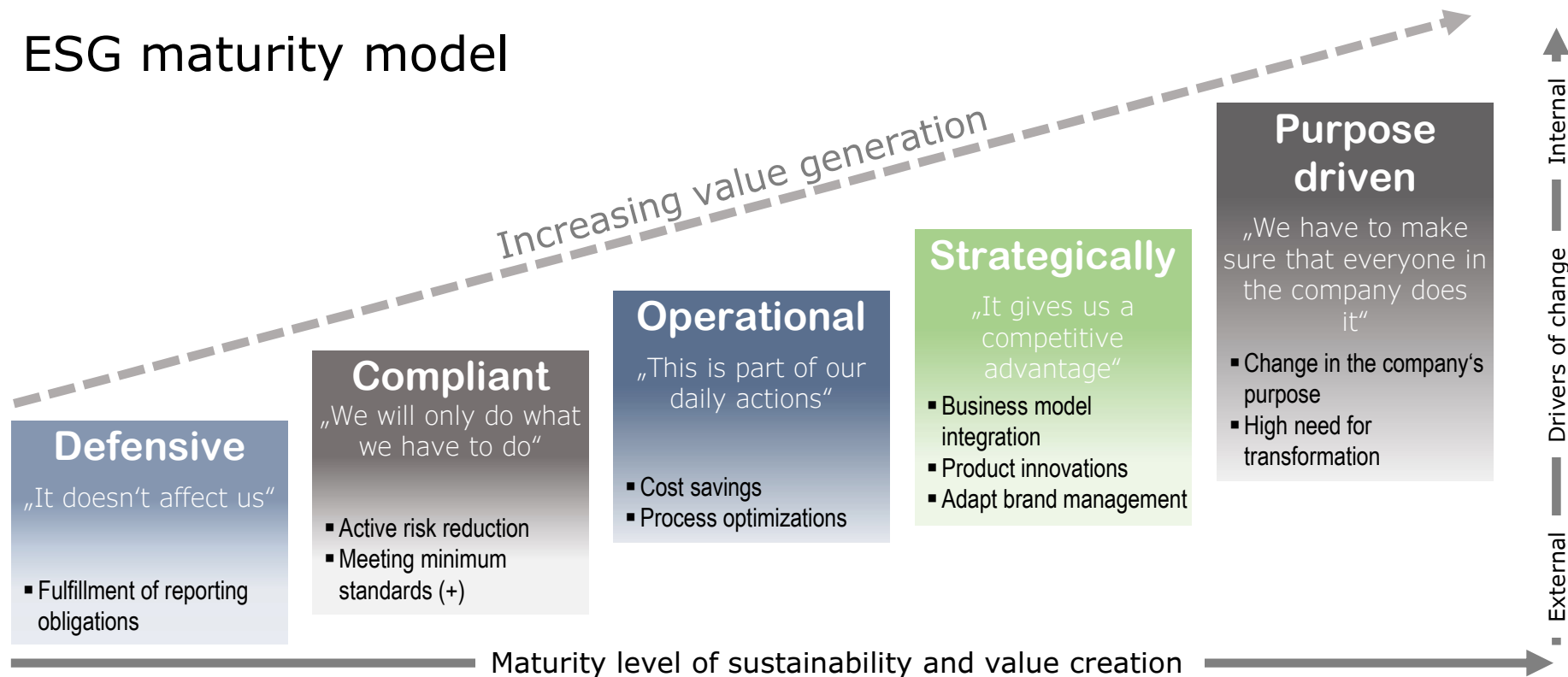


Inside-out

Integrate ESG into strategy



ESG maturity model



Source: Based on KPMG, Von der Pflichtübung zum Werttreiber, 2022, page 11

Reporting (Overview of ESRS standards)

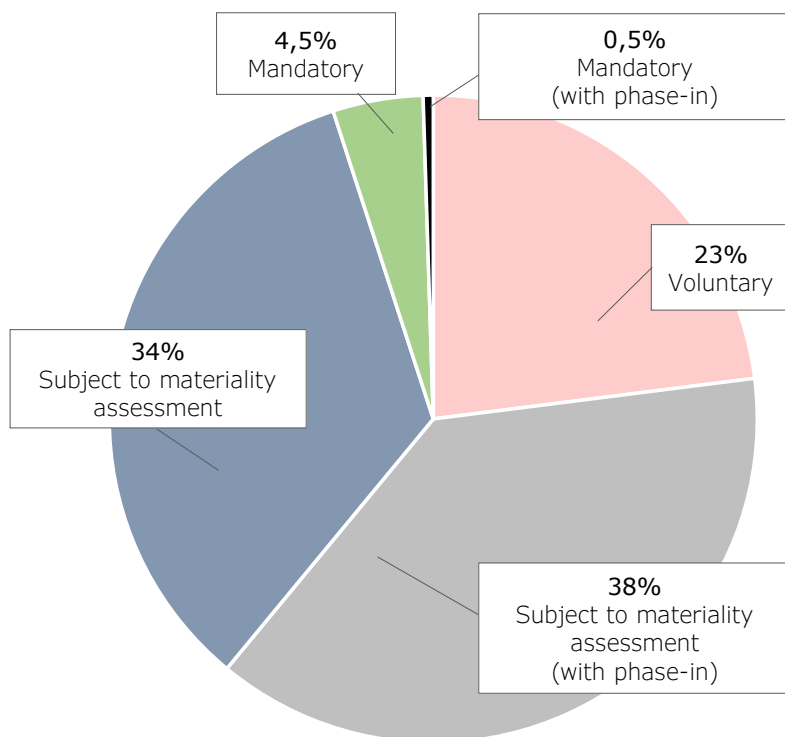


Cross-Cutting-Standards		
ESRS 1 General requirements		
ESRS 2 General strategy, governance and materiality assessment disclosure requirements *		
Environment	Social	Governance
ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Governance, risk management and internal control
ESRS E2 Pollution	ESRS S2 Workers in the value chain	
ESRS E3 Water and marine resources	ESRS S3 Affected communities	
ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end-users	
ESRS E5 Resource use and circular economy		

* **Mandatory standards for all companies, regardless of a special materiality test**

Source: EU 31st July 2023

ESRS reporting: Metrics and KPIs



Maximum 250 KPIs to report: split

ESRS 2	11	1	
Environment			
ESRS E1	30	21	12
ESRS E2	11	7	3
ESRS E3	11	2	3
ESRS E4		9	19
ESRS E5	19	2	

Social		
ESRS S1	39	16
ESRS S2	5	
ESRS S3	5	
ESRS S4	5	
Governance		
ESRS G1	14	5

How can VOIKOS help?



ESG

ESG materiality analysis (double)

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

ESG strategy and communication

- Development and documentation of the ESG strategy and communication support (internal/external)
- Creation of an Sustainability Report

ESG steering and leadership concepts

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

Management Support

Review of ESG-agendas

- GAP analyses between current status and legal requirements
- Derivation of the specific need for action

Committee advice on ESG

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

Project steering and implementation

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

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