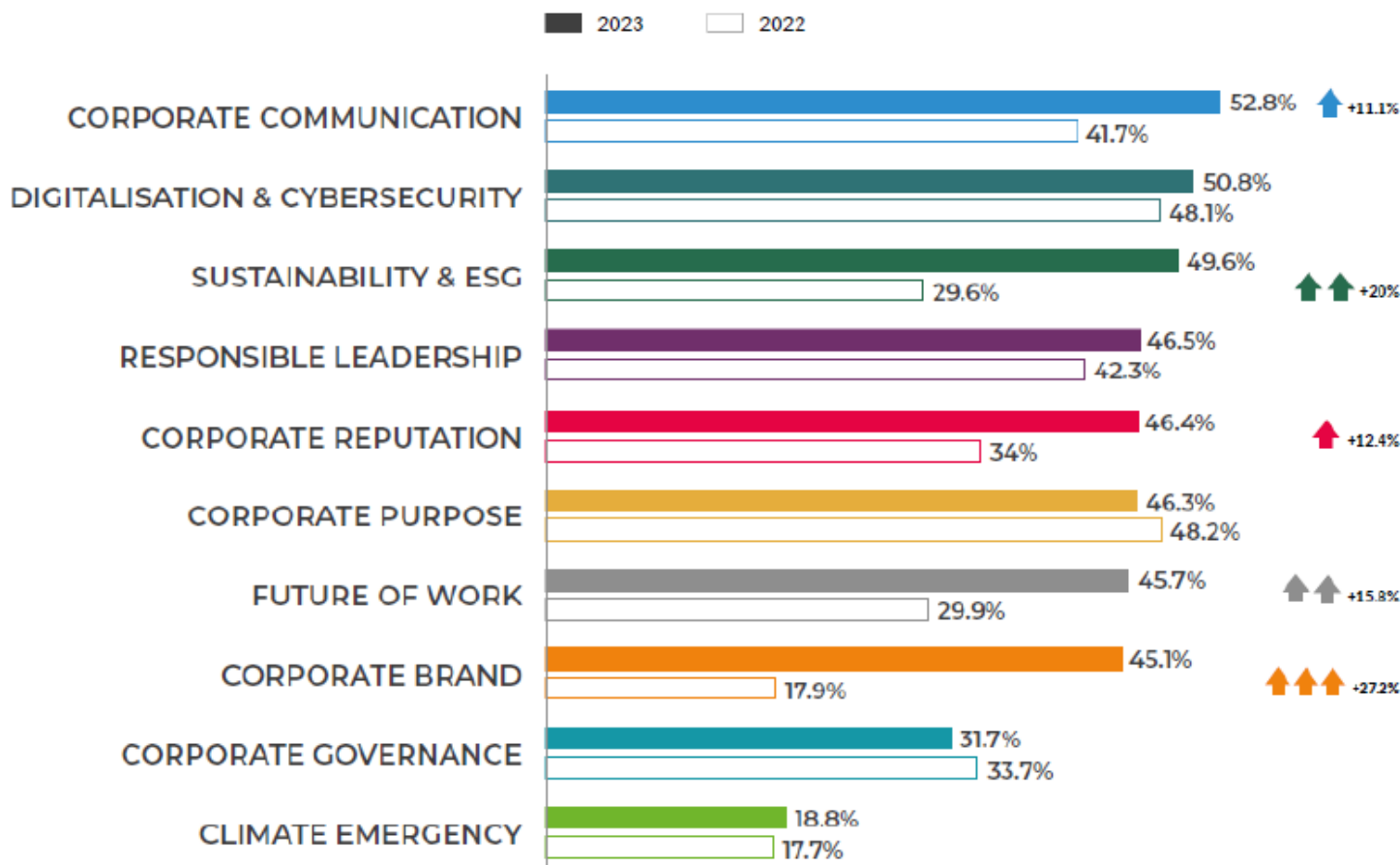


How reporting supports sustainable business management

Dr. Brigitte de Graaff CMA

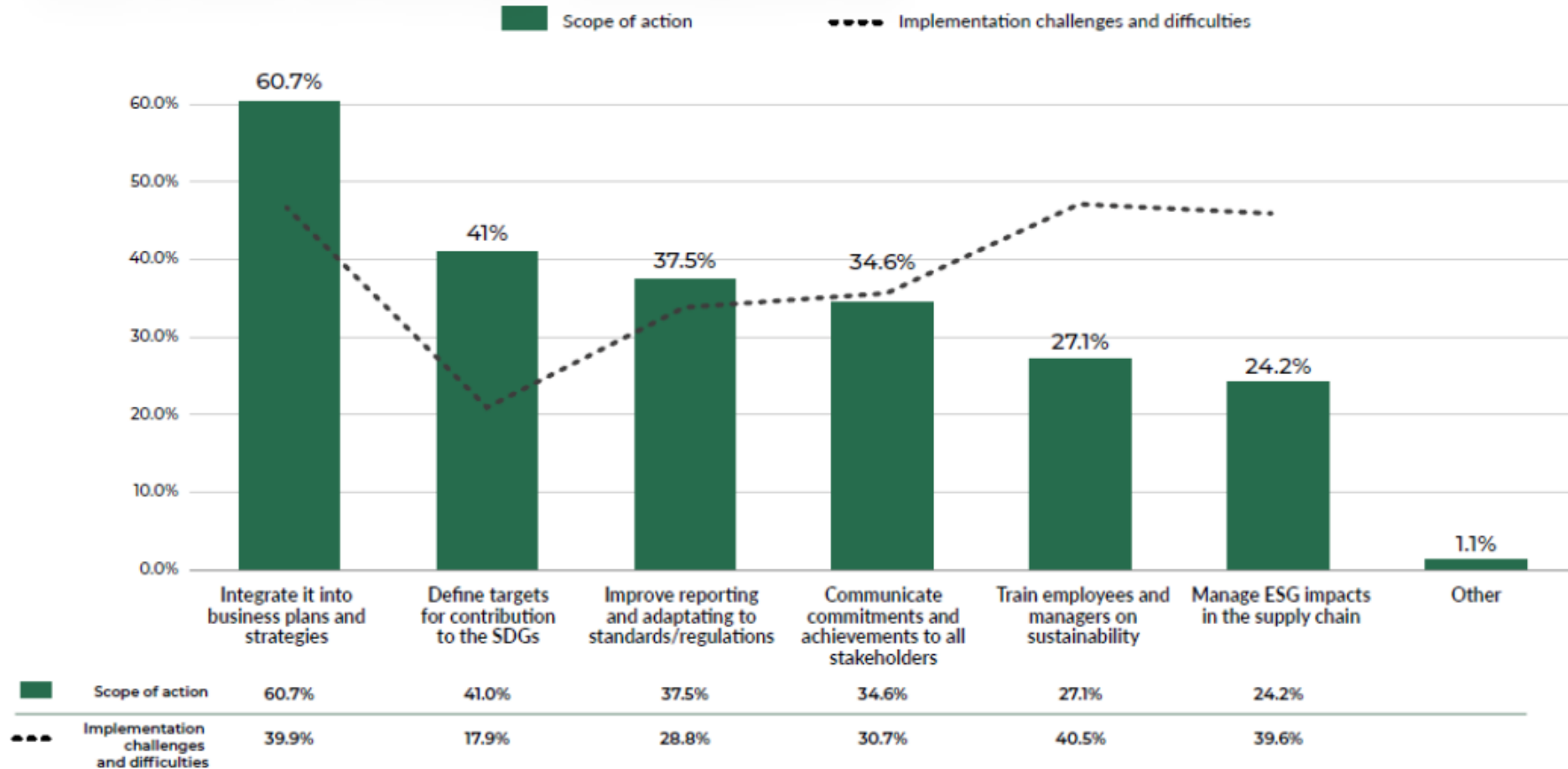
Sustainability and ESG are amongst the most important business topics

Trends being worked on the most by companies: 2023 compared with 2022



Source: Approaching the Future 2023, Corporate Excellence in cooperation with Canvas and Global Sustainable Investment Alliance (n=1.247)

Scope of action and challenges - sustainability & ESG



Source: *Approaching the Future 2023, Corporate Excellence in cooperation with Canvas and Global Sustainable Investment Alliance (n=1.247)*

While business and investor value is still prevalent

■ Total disagree ■ Neutral ■ Total agree

They should embed ESG directly into their corporate strategy



They should make expenditures that address ESG issues relevant to their business even if it reduces short-term profitability



How a company manages sustainability-related risks and opportunities is an important factor in my investment decision-making



Note: Percentages shown may not total 100 due to rounding.

Source: PwC's Global Investor Survey 2023, PwC's Global Investor Survey 2021

“Business leaders are optimistic about the financial value of ESG today and in the future.”

Source: KPMG US Survey 2023

“You can be anti-ESG but it’s hard to be anti responsibility.”

Source: Daryl Brewster, Former Kraft executive and CEO of Chief Executives for Corporate Purpose in Wall Street Journal

Now or never — why ESG is a business imperative

Sustainable Equity Funds Outperform Traditional Peers in 2020

A strong year for ESG equity index funds.

Climate activists hail breakthrough victories over Exxon and Shell



Shell appeal against landmark climate ruling kicks off in Dutch court

Test case on power of courts as oil and gas companies push back over judgments on their role in global warming

Justice & Health

Landmark Peruvian Court Ruling Says the Marañón River Has Legal Rights To Exist, Flow and Be Free From Pollution

Mars chief hits out at 'nonsense' attacks on corporate ESG

Poul Weihrauch says petcare and chocolate group will fail to attract younger employees if it only focuses on profits

BUSINESS

The Latest Dirty Word in Corporate America: ESG

Following years of investor backlash, a number of business leaders are now making a conscious effort to avoid the once widely used term.

By Chip Cutter and Emily Glazer January 9, 2024 05:20 pm ET

Appeared in the Jan 10, 2024, print edition as 'Companies Avoid Mentioning ESG, The Latest No-No'

Green investment in Texas shows how funds are navigating anti-ESG laws

America's ESG Hiring Boom Is Starting to Cool

Companies have slowed hiring on environmental, social and corporate-governance positions as they focus on cost-cutting and higher investment returns.

Joe Biden expected to issue first presidential veto in anti-ESG vote

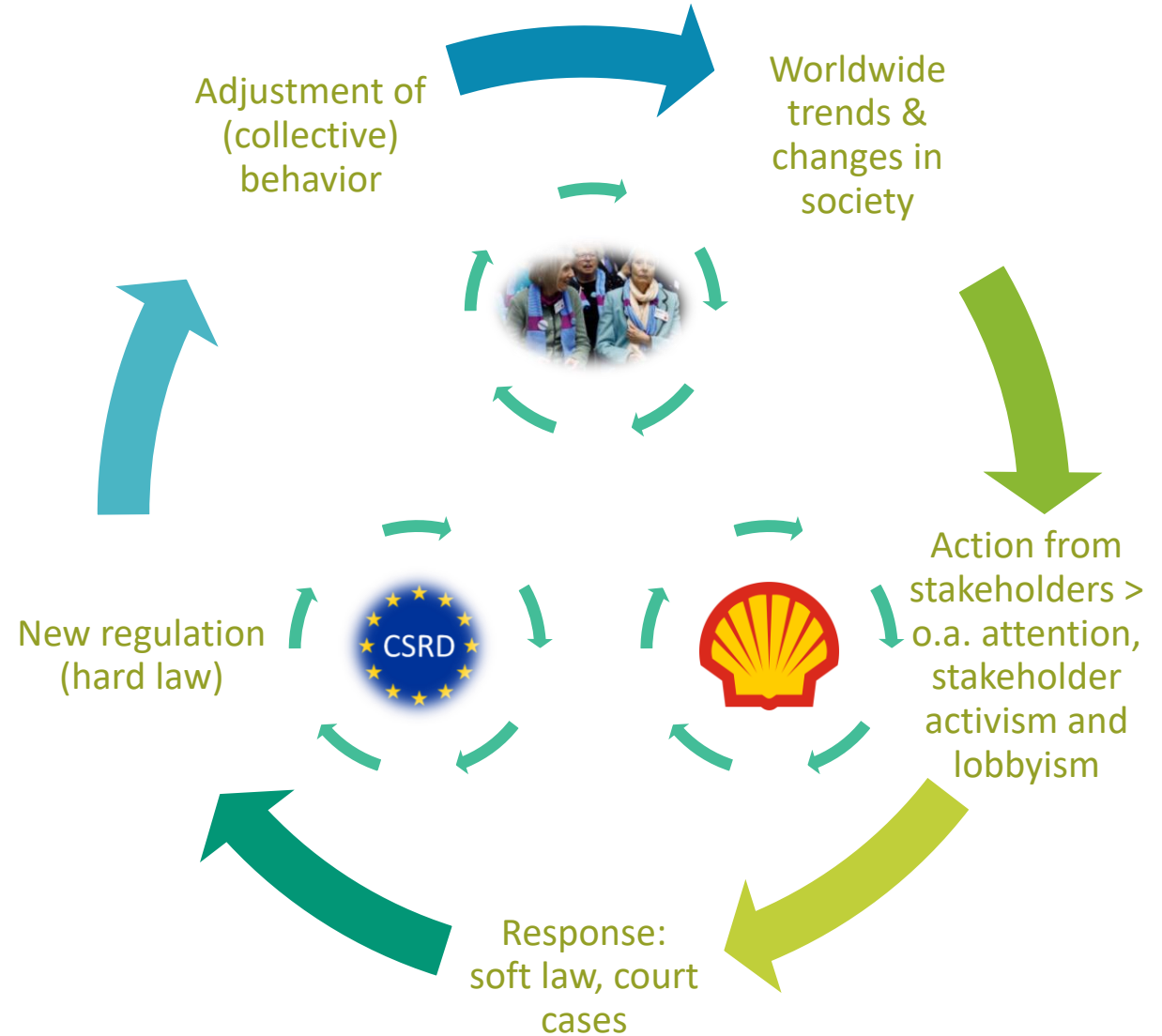
Move comes as two Democratic senators side with Republicans in opposing new rule for fund managers

“Following years of simmering investor backlash, political pressure and legal threats over ESG efforts, a number of business leaders are now making a conscious effort to avoid the once widely used acronym.”

Source: Wall Street Journal, 2024

However, a lot has happened

The interaction
between law and
society



Development of ESG reporting



World
Benchmarking
Alliance



**EQUATOR
PRINCIPLES**



**VALUE
REPORTING
FOUNDATION**



TCFD



SCIENCE
BASED
TARGETS



“Often companies are getting caught out with too much PR around ESG and too little meaningful change - to this extent, the move to action rather than words is a positive one, and the rule should be actions and tangible results come before communication.”

Source: Gerald McKenzie, Managing Partner of neo consultancy Atatū



Why CSRD reporting?

- To help reach the goals of the Paris agreement
- The Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) are designed to align sustainability reporting over time with financial reporting.
- The ESRS aim to provide a large panel of stakeholders with relevant, comparable and reliable information about a company's sustainability-related impacts, risks and opportunities.
- Transparency and comparability first and ultimately behavioral/business change

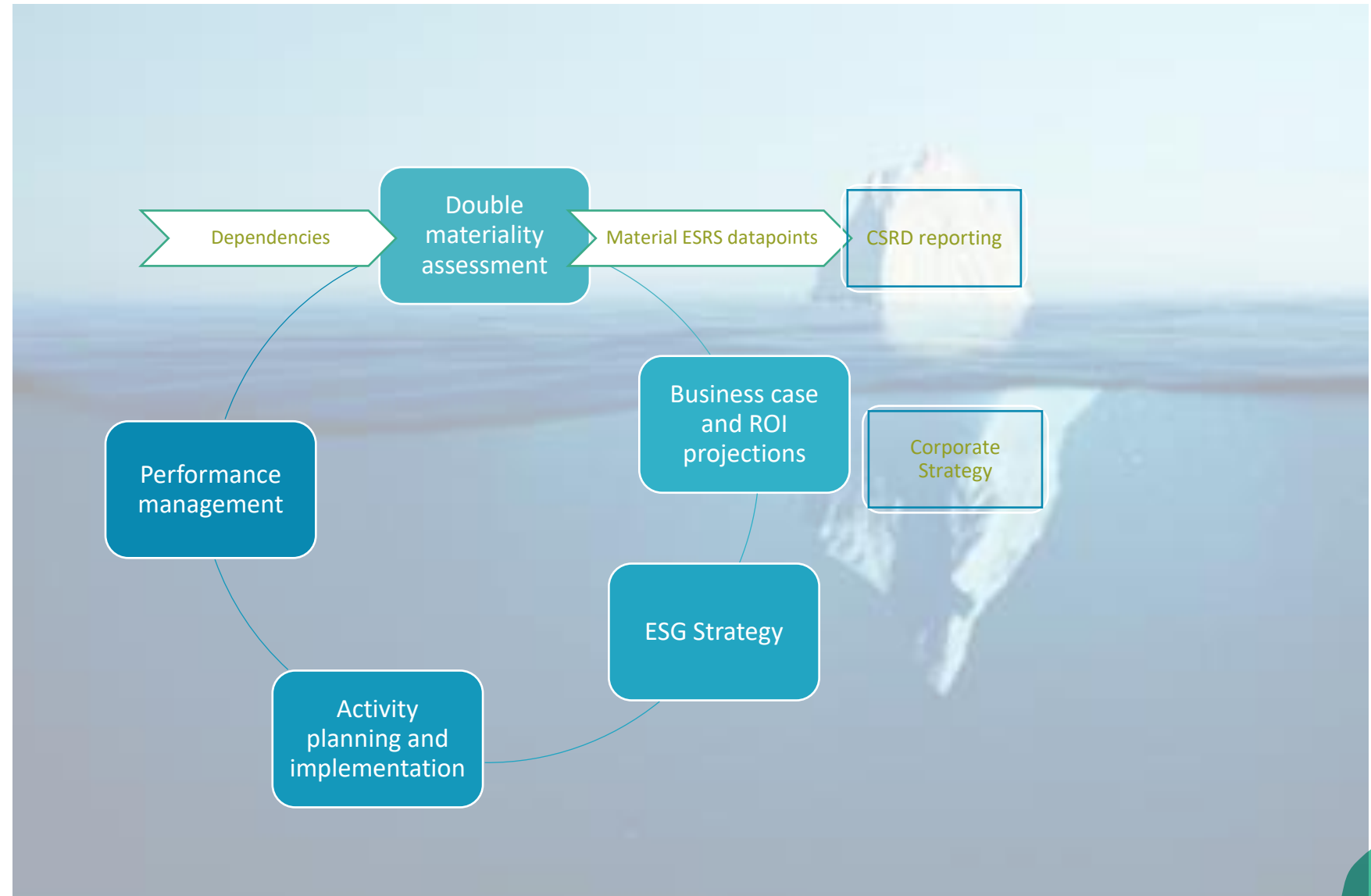
12 ESRS (sector-agnostic standards)			
Cross-cutting Standards	Environment	Social	Governance
ESRS 1 <u>General requirements</u>	ESRS E1 <u>Climate change</u>	ESRS S1 <u>Own workforce</u>	ESRS G1 <u>Business Conduct</u>
ESRS 2 <u>General disclosures</u>	ESRS E2 <u>Pollution</u>	ESRS S2 <u>Workers in the value chain</u>	
	ESRS E3 <u>Water and marine resources</u>	ESRS S3 <u>Affected communities</u>	
	ESRS E4 <u>Biodiversity and ecosystems</u>	ESRS S4 <u>Consumers and end-users</u>	
	ESRS E5 <u>Resource use and circular economy</u>		

What is visible to the public

ESG Report

What is not visible to the public

Operational business model



Despite more demanding rules and regulation, sustainability is not a mere reporting exercise.

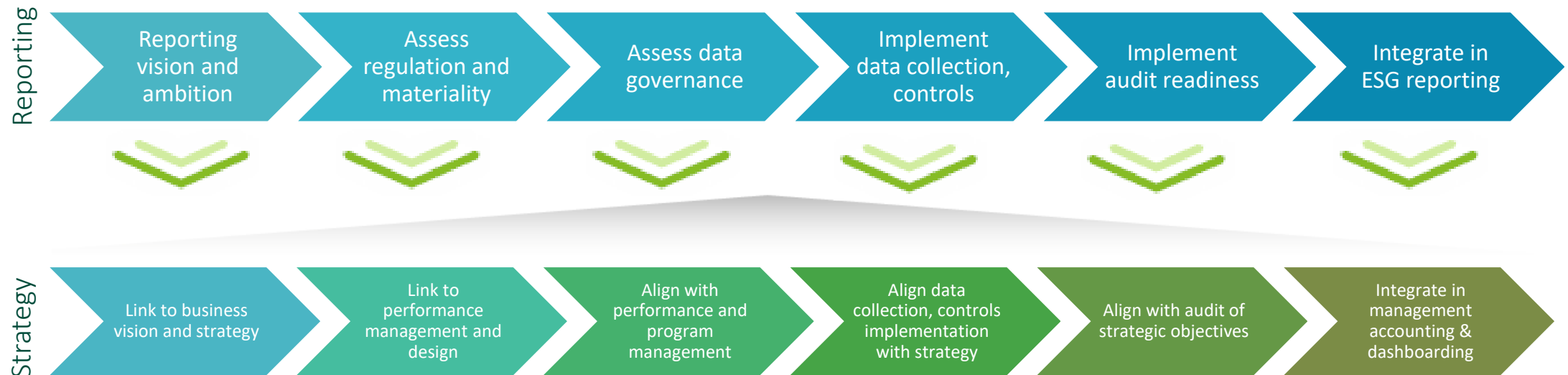
There's a need to move beyond compliance.



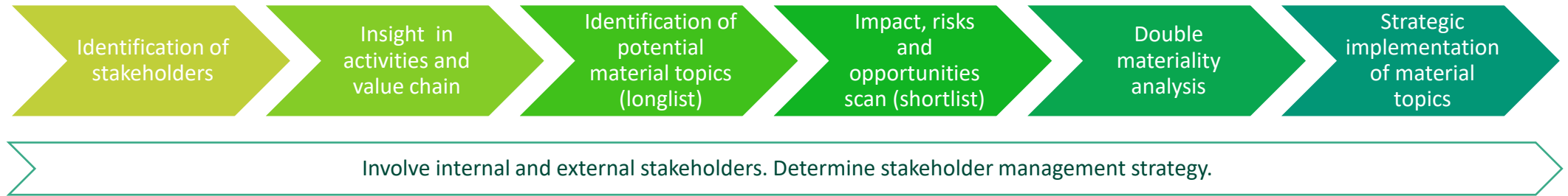
Moving from mandatory external disclosures towards embedding sustainability reporting across the full value chain

Compliance	Management reporting	Performance management	Embedded across full value chain
<ul style="list-style-type: none"> ▶ Regulatory reporting ▶ Voluntary reporting 	<ul style="list-style-type: none"> ▶ Performance management – target setting ▶ Management reporting – linking fin/non-fin ▶ KPI's defined 	<ul style="list-style-type: none"> ▶ Variance analysis ▶ Scenario planning ▶ Initiative tracking ▶ Regular and structured dialogue on ESG performance 	<ul style="list-style-type: none"> ▶ Commercial value management (e.g. brand position, trade spend, customer segmentation, reporting) ▶ Supply chain management (e.g. sourcing, production, etc.)
<ul style="list-style-type: none"> • Focus is on meeting external reporting requirements annually or semi-annually • Supported by a manual or semi-manual process 	<ul style="list-style-type: none"> • Quarterly or monthly management reporting supported by a manual or semi-manual process • Framework for one consistent way of reviewing business performance and KPI tracking 	<ul style="list-style-type: none"> • Performance management operationalised through monthly/quarterly/annual cycles • Predictive analysis, scenario planning, • Tracking and controlling ESG impacts & financials 	<ul style="list-style-type: none"> • Financial and non-financial integrated accounting (e.g., Triple bottom line accounting methodology)

Finance and control are relevant for both reporting and internal performance management



Steps towards CSRD implementation



Integrated reporting

From an external reporting perspective to an internal (process-minded) perspective



External reporting needs to be based on internal actions, decisions and performance. There is no ESG (or sustainability, or responsibility) reporting without incorporating these topics in your strategic and operational decision making.

- Value creation
- Integrated reporting
- Integrated thinking

Integrated Thinking

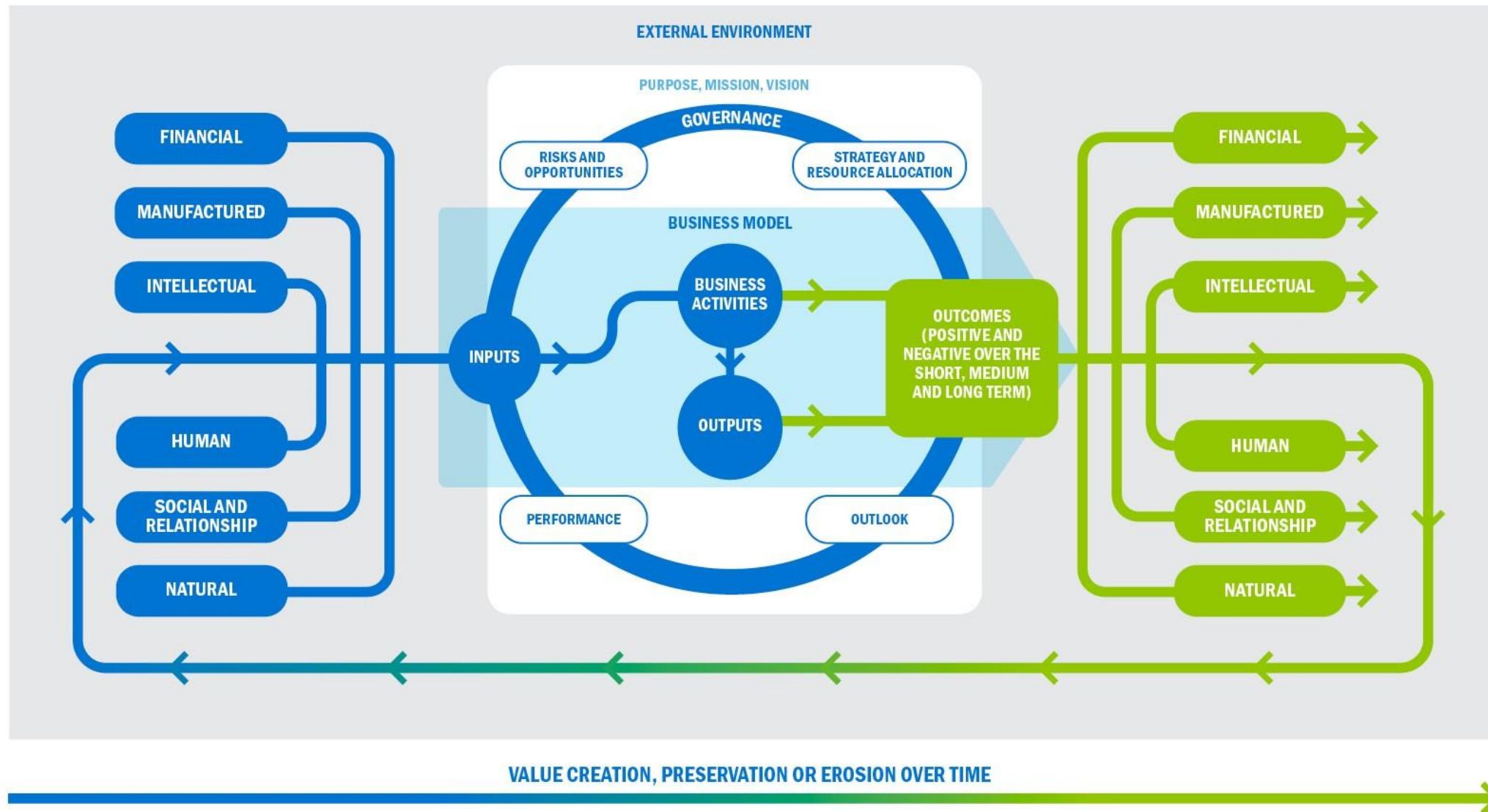
Integrated thinking:

“[...] the active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decisionmaking and actions that consider the creation of value over the short, medium and long term.”

(Source: Integrated Reporting Framework)



The value creation process



Demystifying Integrated Thinking

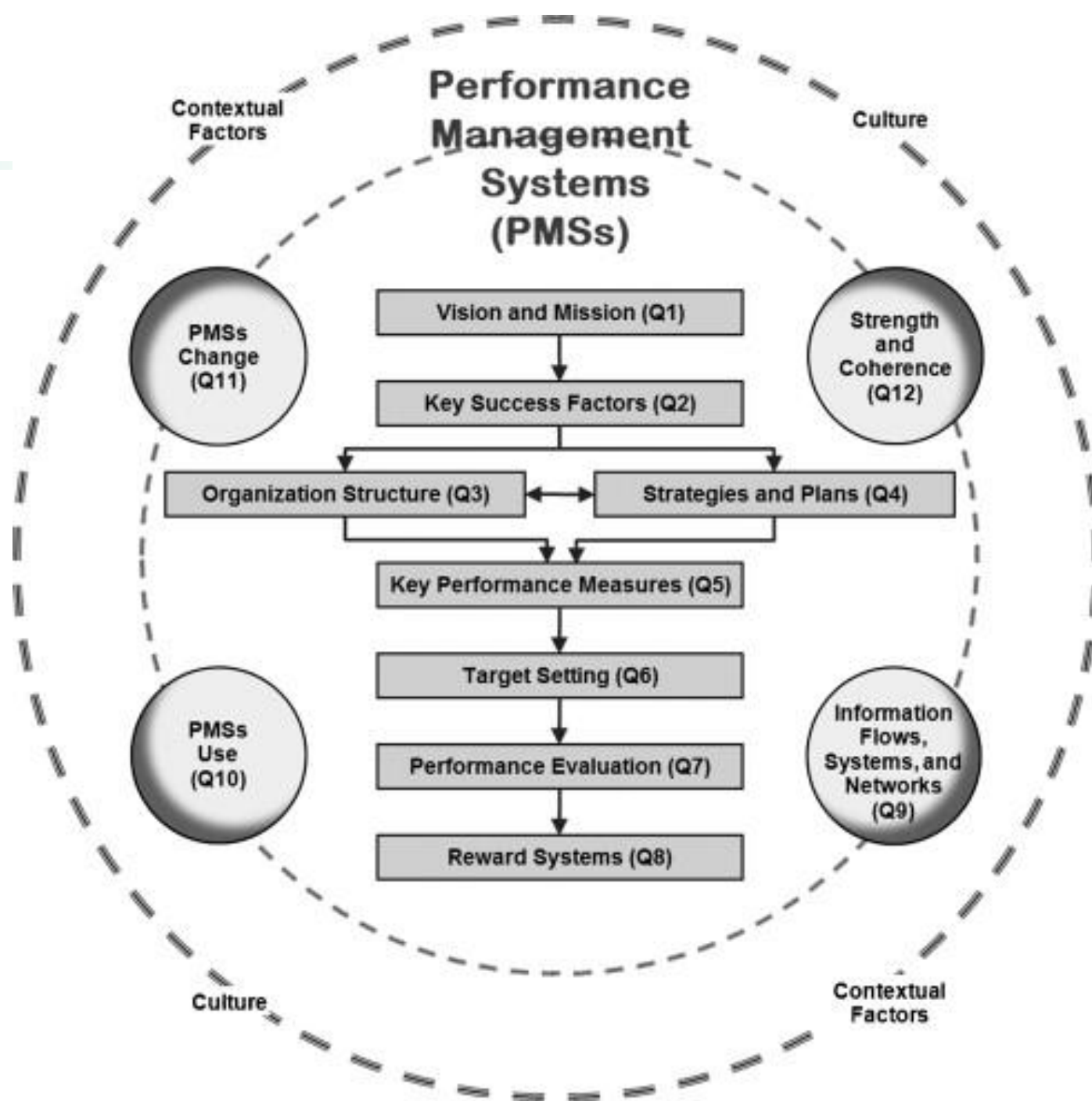
“...the active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects” (IIRC, 2013, p. 2; IIRC, 2021, p. 3)

Issues:

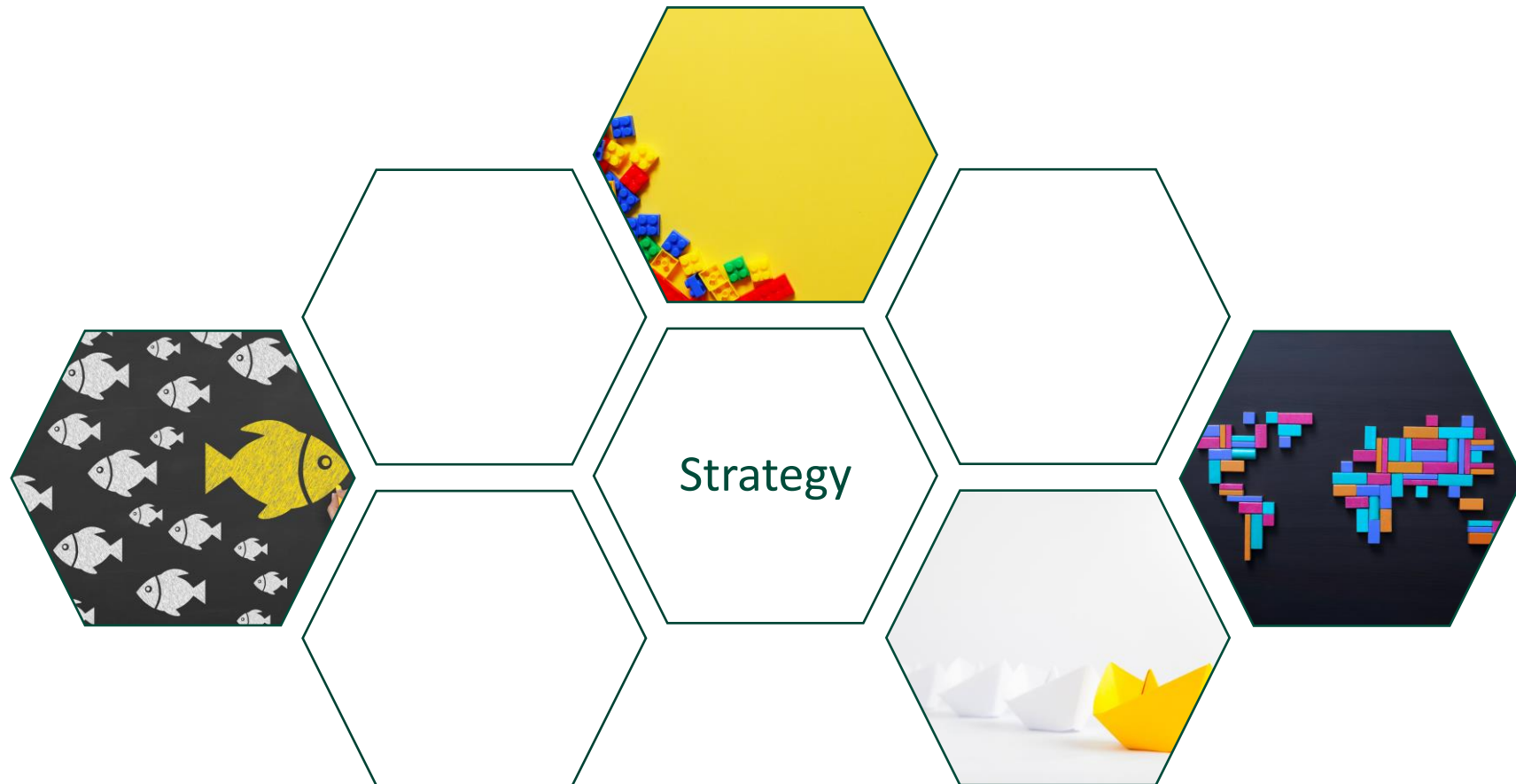
- ❖ Theoretical underpinning
- ❖ Conceptualization
- ❖ Implementation
- ❖ Guidance
- ❖ Capital-connectivity
- ❖ Decision-making support



Source: Ferreira, A. and Otley, D. (2009), "The design and use of performance management systems: An extended framework for analysis", *Management Accounting Research*, Vol. 20 No. 4, pp. 263-282.



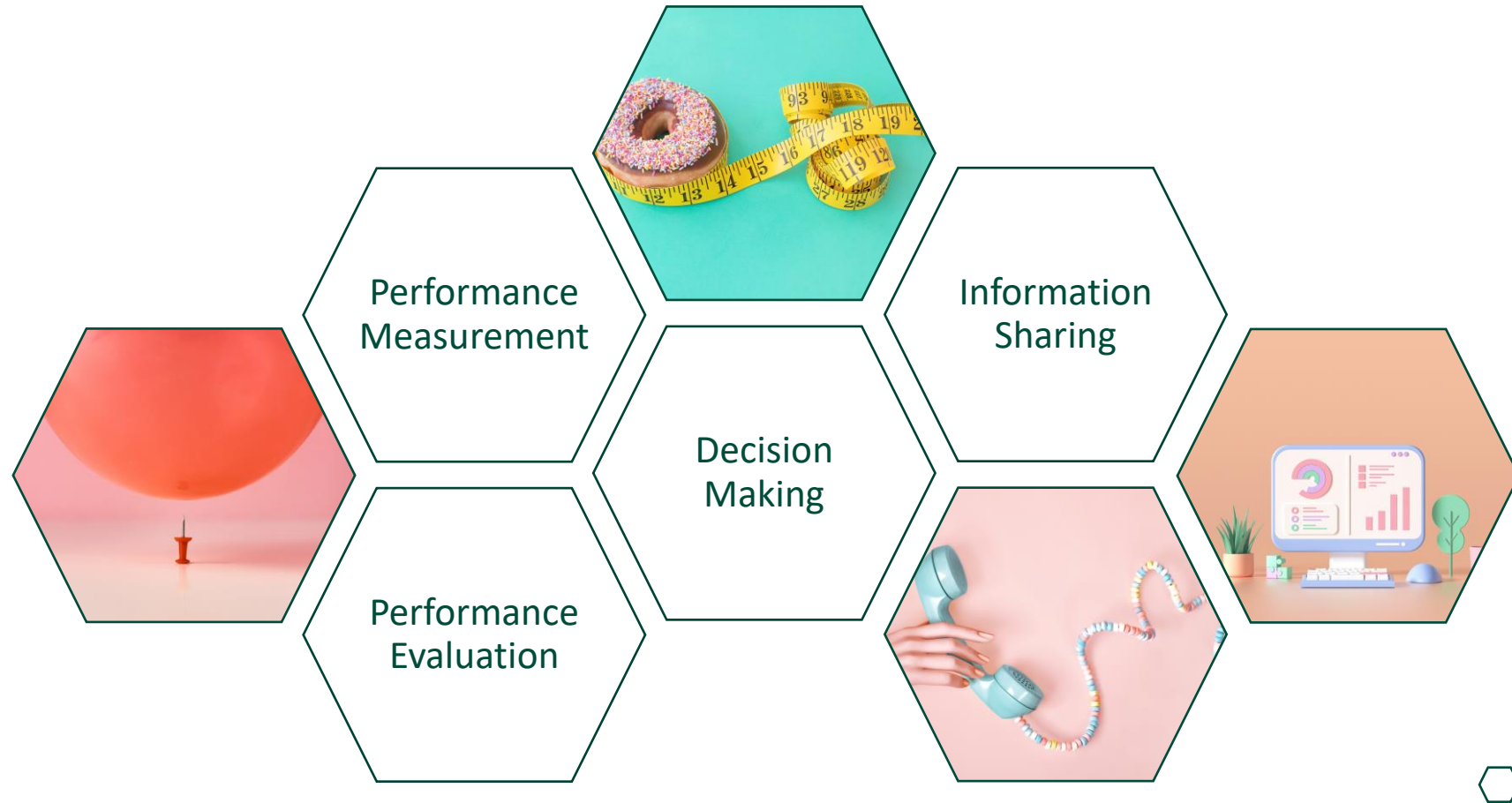
Hallmark 1: Strategy

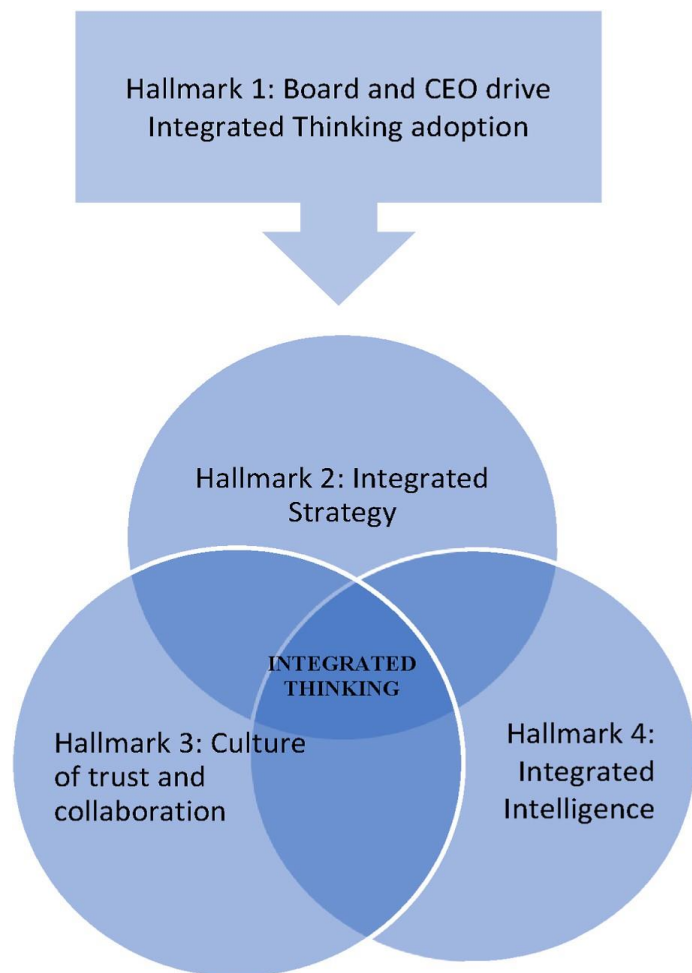


Hallmark 2: Governance



Hallmark 3: Performance Management





	Hallmark 1: Board and CEO drive Integrated Thinking adoption	Hallmark 2: Integrated Strategy	Hallmark 3: Culture of trust and collaboration	Hallmark 4: Integrated Intelligence
Enablers	1. Board understands IR is more than reporting 2. CEO passionate about IR and Integrated Thinking 3. Internal champions of IR and Integrated Thinking	1. Active stakeholder engagement 2. Formal shared planning process that engages employees 3. Incentives geared towards the long-term	1. Employee engagement in IR process 2. Approachable management and encouragement of collaboration	1. Integrated systems 2. Multi-functional teams 3. Finance business partnering
Constraints	1. Management and/or CEO lack of understanding around IR and Integrated Thinking 2. Rigid interpretation of IR 3. External consultants 'pushing' IR	1. Industry norms discourage stakeholder engagement 2. Incentives geared towards the short-term	1. Rigid management practices that discourage collaboration 2. Entrenched existing culture	1. Finance function (if focused on traditional role)
Hallmark 1 interplay	-	-	-	-
Hallmark 2 interplay	Board and CEO influence strategy	-	-	-
Hallmark 3 interplay	Board and CEO influence culture (top-down)	Culture of trust improves strategic decision-making	-	-
Hallmark 4 interplay	CEO can intervene if PMS produces conflicting results	PMS informs strategic decision-making	Culture overcomes focus on hard data and rigid PMS	-

Source: Dimes, R., & de Villiers, C. (2024). Hallmarks of integrated thinking. *The British Accounting Review*, 101281.

How to use integrated reporting?



IR can (/needs to) be combined with any other reporting requirements, rules and regulation.

So, how does integrated reporting tie back into the developments we discussed earlier?

Prerequisite: Integrated thinking is a matter for the board



CSRD is more than just a
'disclosure' standard.



Why embrace the CSRD?



Why embrace the CSRD?

Reporting
regulation



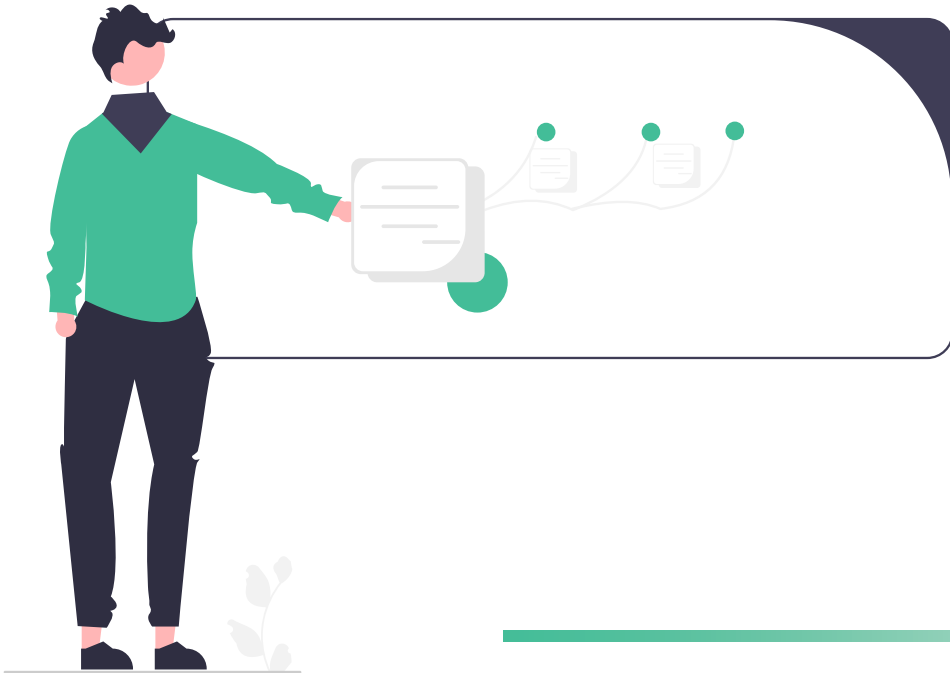
Due-diligence
requirements



Transition plan for
climate change



Integrated Thinking



Questions?

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