ESG: where are you on the journey?

Insights to help businesses advance their sustainability agenda

mazars

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Foreword

ESG: it's a journey

There was a time, until quite recently, when companies felt they could demonstrate their sustainability commitment by simply publishing a sustainability report. That time is over.

Today, if you want to continue to succeed as a business in any significant capacity – especially if you are a large multinational company or a supplier to one – paying lip service to sustainability issues is no longer enough. You need to provide tangible evidence that you have a coherent sustainability strategy, that you are actively implementing it and your report metrics demonstrate you are progressing.

This is the new world of ESG – environmental, social and governance – that has been long in the offing and has now finally arrived. ESG is a useful framework for assessing sustainability – that is, the concept of a business being sustainable and able to repeat what it currently does for future generations. As we discuss in this report, regulators on both sides of the Atlantic are introducing stringent new rules on ESG reporting, and new standardised international metrics to measure ESG are on the way.

ESG is a journey – and the time to climb onboard for those who haven't yet done so is now. Regulation reflects deeper change, one driven increasingly by investors, bankers, customers, employees and society at large. If you are in the supply chain of a multinational enterprise, the chances are you will no longer get business without a sustainability strategy that includes both a clear understanding of your environmental footprint (including a net zero commitment) and your social impact. Now, when you answer a request for proposal, you're more than likely to be asked about the diversity of your team and the sustainability of your business. If you don't have good answers, the investor community may spurn you, customers may turn away, and the recruitment pipeline could dry up.

For many, the journey is only beginning. Even a significant proportion of those who have embraced ESG still have a long way to travel. Many business leaders understand this. Our own barometer of C-suite sentiment last year showed that nearly two-thirds expected their organisation to go through a transformation in terms of sustainability strategy and three in four business leaders were planning to increase investment in sustainability initiatives.

This report takes a closer look at the rise of ESG and sets out some paths for companies of all sizes and in different sectors as they prepare to set off or quicken the pace of their journeys. In our experience, doing ESG properly requires education, knowledge and a mindset shift: one that moves ESG from the periphery to the heart of a company. Senior leadership must understand what's at stake and convincingly buy into the strategy. Sustainability strategy must become business strategy.

Perhaps inevitably, there's a backlash building in some quarters against sustainability investment. The war in Ukraine has made energy supply a mission-critical question, especially in Europe, prompting discussion about priorities and trade-offs. Compliance can be complicated – and costly. How should companies successfully progress on their ESG journey? How can they set about getting their reporting in shape to satisfy the new requirements and add value to their business?

Without minimising these complications, the business case is compelling: ESG is not just an opportunity to be seized but also, for some, critical to future-proofing their business. Those who embrace and embed ESG wholeheartedly may get a competitive edge. Yet in our experience, many companies feel uncertain about how to navigate this new ESG world. We hope this report will provide some travel guidance – and be a starting point for discussion.

Chris Fuggle
Global Head of Sustainability Services, Mazars

Executive summary

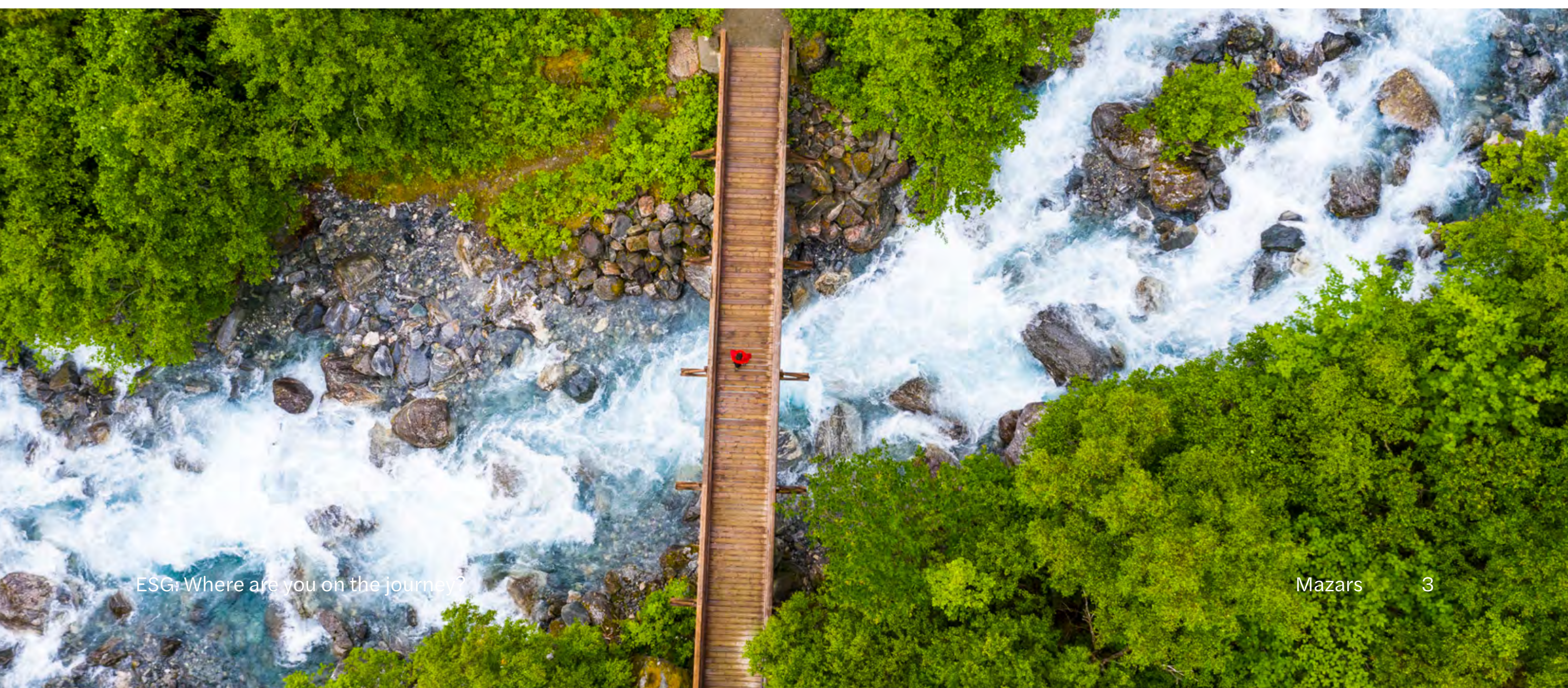
Significant and far-reaching changes in reporting rules are being introduced in Europe through the landmark Corporate Sustainability Reporting Directive (CSRD), internationally via the International Sustainability Standards Board (ISSB), and are being discussed by the Securities and Exchange Commission (SEC) in the United States. Companies will be required to provide detailed metrics to investors and other stakeholders about their ESG records. These new stipulations, which can be challenging for organisations to implement, mark a decisive change, in that companies will be judged based on their sustainability performance and not only their financial performance.

Even before the new rules apply, investors seeking to gauge risk exposure and large international companies looking to inject key sustainability goals into their supply chains have substantially increased the pressure on companies to become more sustainable. This is affecting firms in all sectors and of all sizes, including privately owned businesses and small and medium-sized enterprises.

In the most recent Mazars C-suite barometer around half of the companies surveyed had already made public commitments on a range of ESG topics, and it was clearly on the C-suite agenda. A significant majority (62%) considered a transformation in their sustainability strategy likely in the three to five years ahead and three-quarters said they planned to increase investment in sustainability initiatives in the short term. More than 90% were confident they could respond to the expectations for governance, ethics and social responsibility.

The new ESG requirements play out differently across sectors. Consumer companies, for example, are reviewing their value chains to look for ways to make a wide range of operations from logistics to packaging more sustainable – and to identify potential abuses including modern slavery. Consumers increasingly demand and expect that. In financial services, new regulations increase the burden of compliance, which can be costly, and assessing ESG risk in portfolios is a complex undertaking. For energy firms, meeting the stringent new data requirements is a major challenge. But for companies in all sectors, there are business opportunities in these new requirements, including prospects for new products and new markets.

The journey to becoming a more sustainable company requires not just operational and reporting changes but also a significant change in mindset and culture. Committed, well-informed leadership and carefully planned execution is needed if sustainability strategy is to successfully merge into broader business strategy – a prerequisite for success. The rewards of doing so are multiple. They include cost savings from a lower environmental footprint, for example from less waste, reduced energy consumption, improved staff motivation leading to better staff retention, and a potentially important competitive advantage for leading the transformation. As a result, early movers will be able to attract the best talent, reduce business risks and build more resilient supply chains.



Navigating a new set of rules

What does it mean for a company to be sustainable? For years, definitions have differed, and metrics to measure sustainability have varied widely. That is now changing, as new regulations for corporate ESG reporting take effect in Europe and are under discussion in the US. What will change?

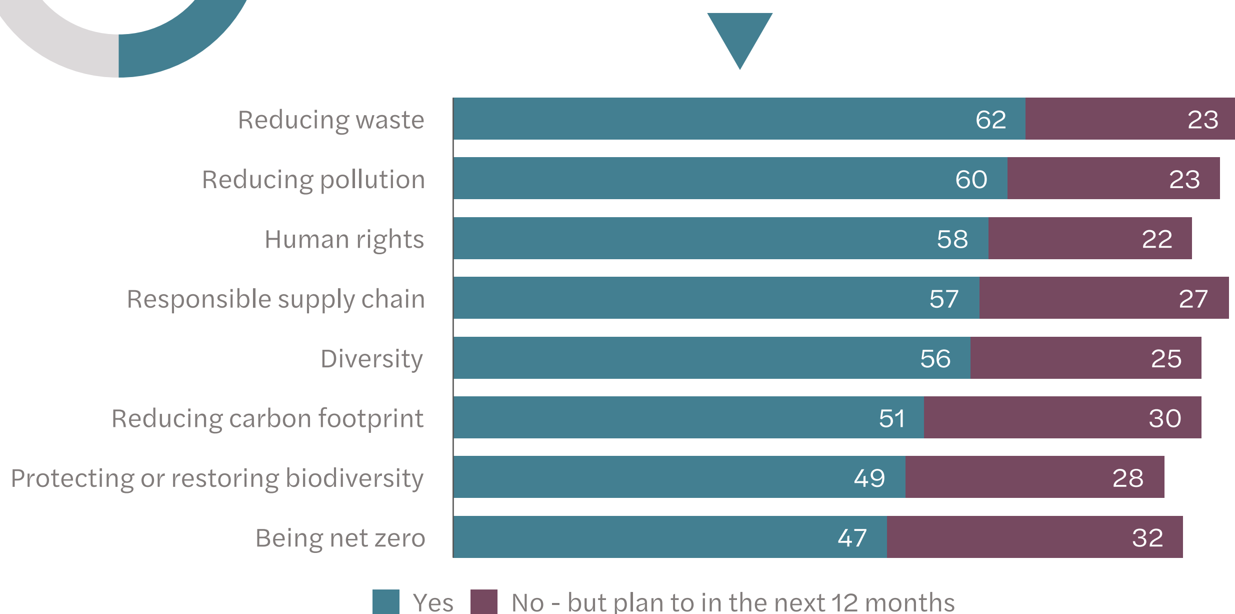
Navigating a new set of rules

Back in 1970, American economist Milton Friedman famously wrote an article in the New York Times in which he lambasted business leaders who talked about having social goals such as eliminating discrimination, avoiding pollution, "or whatever else may be the catchwords of the contemporary crop of reformers." The article's headline said it all: "The social responsibility of business is to increase its profits." Fifty years later, Friedman's doctrine has been totally upended. Today, companies are increasingly required to show and explain how they interact with the world around them – and not as a diversion or sideshow that detracts from profitability but as an increasingly indispensable part of business strategy that can future-proof an organisation and generate new growth and value.

Multiple factors have brought about this radical shift in sentiment over the past half-century. Climate change, extreme weather events and the growing physical and socioeconomic risks associated with it have been important spurs; thousands of companies made net zero pledges in the lead-up and aftermath of COP26 in Glasgow in 2021. Indeed, much of the focus and most of the metrics relating to ESG are on environmental issues, from water consumption to energy and the volume of Scope 1, 2 and 3 emissions - that is, direct emissions owned or controlled sources (Scope 1), indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company (Scope 2), and all other indirect emissions that take place in a company's supply chain (Scope 3).

From a social perspective, diversity and inclusion have become increasingly important topics for business leaders and their HR teams, as have human rights issues. And for governance, public scrutiny and investor pressure are being brought to bear on a range of issues including business ethics and executive pay. Our most recent C-suite barometer showed how these issues have moved up the corporate agenda, with more than half of the companies surveyed having already made public commitments to achieving key ESG goals.

More than half of the respondents to our C-suite barometer have already made public commitments to most ESG topics, with reducing waste and pollution top of the list. Interestingly, less than half (47%) have made a public commitment to being net zero.



Q: Have you made public commitments related to the following ESG topics? Chart shows percentage of respondents. Total, n=1,130.
Source: Mazars C-suite barometer

Navigating a new set of rules

Key changes in ESG requirements

Questions about what ESG covers and how to measure it in a corporate context have given rise in recent years to a multitude of initiatives. These are now converging around some key principles, frameworks and standards – which in turn are being given new teeth by regulatory action on both sides of the Atlantic.

Among the most important existing ESG standards and frameworks are:

- **Global Reporting Initiative** (GRI) standards, which date back 25 years and consist of 34 topic-specific standards.
- **Sustainability Accounting Standards Board** (SASB) standards, which cover 77 industries and focus on the sustainability risks and opportunities most likely to affect a company's financial situation, operating performance or risk profile.
- The Financial Stability Board's **Task Force on Climate-related Financial Disclosures** (TCFD), to which both GRI and SASB are aligning their standards. The TCFD framework has four pillars: governance, strategy, risk management and measurements and targets. The TCFD provides guidelines on the types of information that should be reported but does not mandate precise metrics. The TCFD framework is emerging as the key reference for countries seeking to legislate reporting requirements.

Several significant recent regulatory developments are potential game changers:

In Europe, the EU institutions recently adopted the Corporate Sustainability Reporting Directive (CSRD); an eagerly awaited update of a previous 2014 directive that had already created reporting and transparency obligations on sustainability issues for European companies with more than 500 employees. The CSRD, which integrates the TCFD recommendations into its guidelines, expands the scope of companies subject to sustainability reporting obligations. It aims to improve the quality and comparability of published information by imposing the mandatory use of European Sustainability Reporting Standards (ESRS) and the mandatory auditing of sustainability reports. The new rules impose significant requirements on companies to provide quality data for aspects of their businesses that were previously lightly measured or not measured at all. Work was started on the ESRS in 2020 and they are expected to be adopted by the EU Commission by mid-2023.

In the United Kingdom, new government regulations, which took effect as of April 2022, require the largest UK-registered companies and financial institutions to disclose climate-related financial information on a mandatory basis, using guidelines from the TCFD.

In the United States, in March 2022, the SEC proposed new rules mandating climate-related disclosures for public companies, which are also modelled in part on the TCFD recommendations. The rules would apply to all companies, both US-based and foreign, whose stock is listed on a US stock exchange. They would require broad disclosure of climate-related risks that are reasonably likely to have a material impact on a public company's business. If

enacted, the proposed disclosure framework would bring the United States closer to the EU position, although it has run into some public opposition.

At a global level, the International Sustainability Standards Board (ISSB), formed in 2021 and operating under the oversight of the IFRS Foundation, has commenced its work on a suite of disclosure standards to meet investors' information needs. It launched a consultation on its first two proposed standards, the first on general sustainability-related disclosure requirements and the second on specific climate-related disclosure, prior to publication.

Understanding "double materiality"

One of the innovations in Europe's CSRD directive is that it mandates companies to conduct a "double materiality" assessment. That requirement distinguishes the CSRD from the ISSB's approach and the SEC's proposed rule, which do not include such a stipulation.

Under CSRD, both EU companies and non-EU companies operating in the EU will disclose sustainability information according to the same consistent double materiality approach on the three pillars, E, S and G.

What is double materiality about?

The concept was first introduced by the EU Commission as part of the 2019 Guidelines on Non-Financial Reporting. The idea is that ESG risks and opportunities can be material from a financial perspective, a non-financial perspective or both. Issues or information that may be material to environmental and social objectives can also have financial consequences over time.

Under the CSRD, companies will have to report not only about how sustainability issues affect their business but also about how their business affects sustainability – that is, their own impact on people and the environment. The adoption of the CSRD will be phased in over 4-years. Those companies already reporting under NFRD will commence with reporting periods beginning on or after 1 January 2024, large EU companies 2025, listed SMEs 2026 and those Non-EU groups meeting the CSRD conditions in 2028. The EU Commission says that the CSRD will improve the quality of the information that companies report and provide investors with a more reliable overview of sustainability-related risks to which companies are exposed. As a consequence, the market for green investments will become more credible, as investors will have more information about the sustainability impact of the companies in which they invest. Ultimately, the goal of the CSRD is to enable investors to re-orient investments towards more sustainable technologies and businesses.

View from the United States: The conversation has changed

The discourse on ESG in the United States has completely changed. Four years ago, we had limited interest in ESG services from the market. Today, the topic comes up in virtually all our conversations.

Growing public pressure and concern over ESG issues are now a business reality, and companies have to respond to the demands of stakeholders, in particular investors and customers. Companies across industries need capital, and large investors are now requiring them to show their sustainability credentials to access that capital. Market pressure is also coming from clients, with large corporations committed to sustainable development requiring their suppliers to provide ESG data and take action on sustainability.

In the U.S., the SEC rule on climate-related disclosures aims to protect investors rather than directly regulate companies. The rule focuses on the need for registrants to report on their material risks associated with climate change and provide investors with enough information to assess those risks.

Europe's CSRD, by comparison, takes a much more comprehensive approach to sustainability, embracing social and governance factors and a double materiality approach. Nevertheless, the U.S. has been addressing social topics such as diversity and inclusion for several years, and the SEC is now also considering a rule around human capital.

These market forces are expected to intensify over the coming years. Companies in the US need to incorporate sustainability both from a risk management and a value creation opportunity perspective.

Jerome Devillers
Partner, Mazars, USA

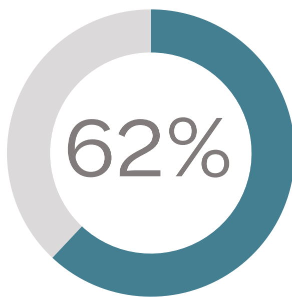
Top-of-mind for the C-suite, but where to embark?

"Where are companies today on the ESG journey? We have a few saying their train is just leaving the station. There's another cohort on the platform who are looking at the train and wondering whether to get on. But most companies don't even know where the station is."

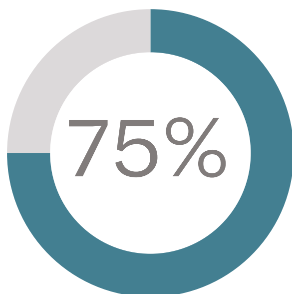
Richard Karmel, Partner, Mazars

Top-of-mind for the C-suite, but where to embark?

ESG is now firmly on the C-suite agenda. Leaders view sustainability, along with technology, as a driving force of business transformation in the years to come, and many are making public commitments to meet targets including for emissions. But moving from words to action is challenging.



Businesses consider a transformation in their sustainability strategy in the coming three to five years likely – an 18-point increase vs 2020.



Three quarters plan to increase investment in sustainability initiatives over the next 12 months – a 27-point increase.

Source: Mazars C-suite barometer

Difficult choices about priorities

The new rules about ESG reporting being discussed on both sides of the Atlantic are partly driving new investment. But it is interesting to note that, in terms of reasons to invest in responding to ESG issues, C-suite executives listed compliance in fourth place, behind brand and reputation, client and consumer expectations, and the criticality of ESG to long-term growth. The biggest challenges they identified were funding (52%) and complexity (51%), followed by the risk of low return (49%) and the difficulty of choosing what to prioritise (47%). Companies tell us that, among the various aspects of complexity, providing quality data about the ESG impact of operations will be among the most challenging.

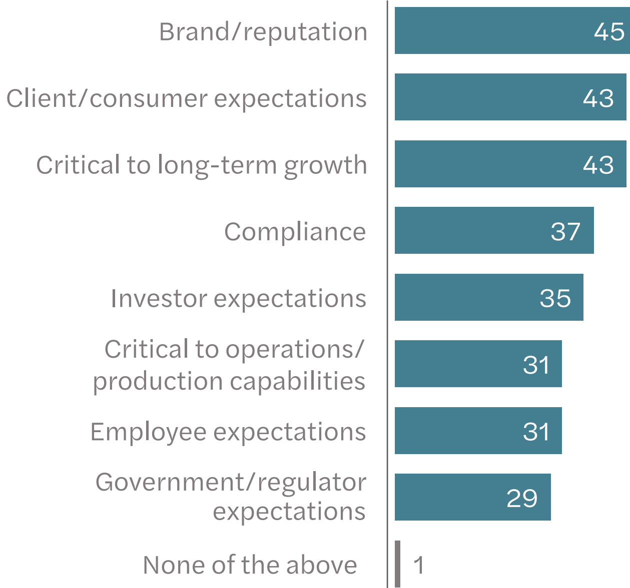
Those answers track consistently with the issues and questions that C-suite executives raised about their sustainability reporting. Data quality is seen as the most difficult issue (39%), followed by prioritising what to include (29%) and data tracking (28%).

Read more in-depth analysis in the Mazars C-suite barometer report.

Top-of-mind for the C-suite, but where to embark?

Most important reasons for ESG investment

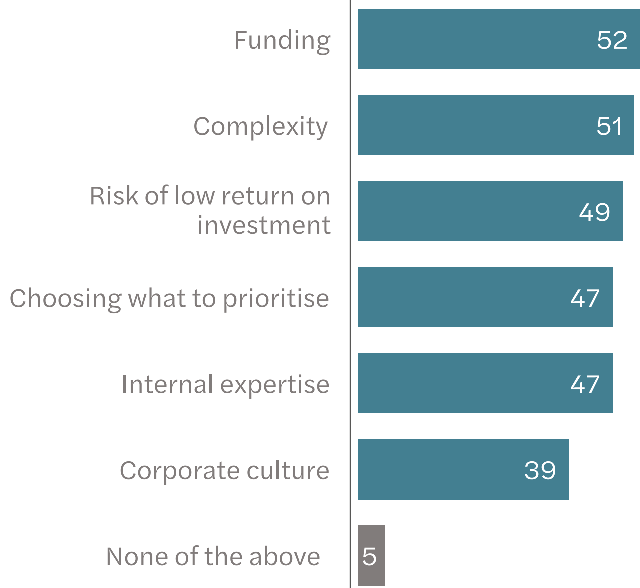
Percent of respondents



Q: Which three of the following are the most important reasons to invest in responses to ESG issues? Total, n=1,130

Most significant barriers to ESG investment

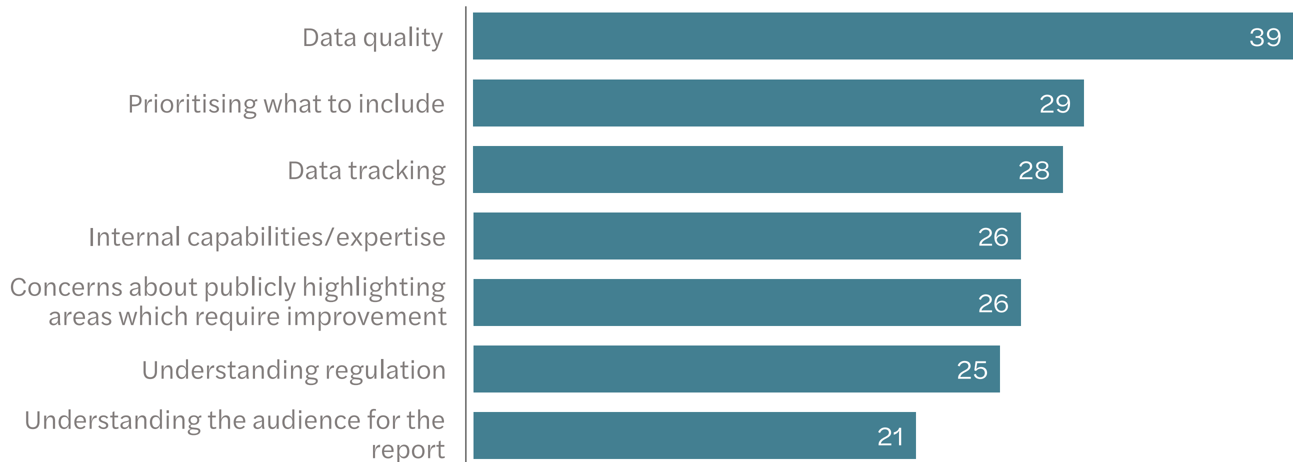
Percent of respondents



Q: What are the most significant barriers to your organisation investing in responses to ESG issues? Total, n=1,130

Source: Mazars C-suite barometer

Top-of-mind for the C-suite, but where to embark?



What challenges does your organisation face when producing its sustainability report? Please choose the two biggest challenges. Organisation produces sustainability report, n=717.

ESG and the return of geopolitics to the business agenda

The Russian invasion of Ukraine in February 2022 has affected perceptions of energy security, particularly in Europe, with significant implications for ESG.

On the one hand is the very real concern about energy security, which is prompting European governments to search for alternative fossil fuel supplies. While renewable energy, including wind and solar power, has grown in importance in Europe in recent years, it still only accounts for a little over 20% of consumption. The continent remains heavily reliant on imports of oil and gas.

To that extent, overcoming the cold winter months involves a trade-off between the intention of moving to more sustainable and less carbon-intensive energy, and the reality that homes need to be heated and businesses need to keep running.

On the other hand, the war-related energy crisis serves as a stark reminder of the dangers of energy dependency. In the medium and longer term, this is likely to accelerate decarbonisation efforts and the push to deploy more renewables. For now, Europe is burning more coal to compensate for Russian gas and oil. In the future, geopolitics will accelerate the alignment between energy security and the build-out of renewables.

Packing your bags for the journey ahead

Where to start? For many companies in the early phase of their ESG journey, understanding what is required and how to adapt to those requirements can seem complex, onerous and confusing. Getting the basics right has never been more important.

Packing your bags for the journey ahead

Meeting new reporting requirements is only a by-product of the ESG journey. The main objective is integrating sustainability fully into the company– it's a bigger challenge but one that offers rewards. It requires focus, a clear roadmap and, above all, strong commitment. Leadership is essential. For companies still in the early stages of their journey, or about to set off, Anthony Carey, Senior Adviser, Board Practice and Public Policy at Mazars in the UK, outlines what he considers to be the seven critical success factors for a sustainable board.

Setting off: seven principles of sustainable leadership

Leadership and tone from the top. The board, or those otherwise responsible for leading the business, should be wholeheartedly committed to achieving sustainable success and have an appropriate structure in place to enable the business to achieve its goal. It's vital to lead by example.

Purpose led. The ultimate responsibility for defining purpose rests with the board, or those responsible for leading the business, and they have a duty to take a longer-term perspective extending beyond the tenure of any management team. You need to have a real commitment, a purpose that is inspiring and simply set out. Culture and strategy need to be aligned.

Stakeholder oriented. Strong emphasis needs to be placed on engaging in a two-way dialogue with all key stakeholders, including but not only shareholders. Sustainability is a barometer of how modern you are as a business: if you are not interested in sustainability, you are probably behind the curve on many things.

Sustainability deeply embedded throughout the business. Greenwashing doesn't work. Ownership of purpose starts with the board or those responsible for leading the business. They need to put in place appropriate structures, controls, information systems and processes for delivering it. Senior management must take responsibility for ensuring that the company's mission is embraced by everyone in the organisation at all levels.

Strong organisational culture of sustainability. Management guru Peter Drucker supposedly once said that culture eats strategy for breakfast. The culture and values of the company must be at the heart of the business and fully considered in decision-making, including on matters relating to employees and to business transactions.

A learning approach – a journey. Sustainability is not an end point but a journey, a path towards realigning the company's purpose, strategy and business model in harmony with nature, people, and communities. As the world changes, you need to keep moving. Most of us know that life is a journey on which we are hopefully constantly learning. You can only go forwards or backwards. If you aim to stand still, you'll be overtaken.

Openness in reporting. As we describe in this report, reporting requirements on non-financial information are increasing. Talking about the journey you are on – what you are trying to achieve – and the achievements, challenges and setbacks is more credible than good-news marketing. Beware of simple metrics. You need to report salient and material issues. Set out the overall journey along with relevant metrics that explain how you aim to get there. Then set out where you are achieving those metrics and where you are not. By showing that you are facing challenges you highlight your openness and desire to address them.

The onward journey: learning as you're getting on your way

Companies around the world will need to take the new ESG requirements onboard. Many of the issues they will face in doing so are common to all, regardless of geography, Here, two Mazars partners discuss insights from the work in their respective countries and how they help clients address both global and local challenges.

Interview with Bongiwe Mbunge, Partner, Mazars, South Africa

Sustainability-related legislation and compliance parameters have progressed fundamentally in Europe. Africa is behind. The first point of pressure is coming from a global supply chain. This supply chain compliance is present in select tenders, anticipated to gain momentum. Climate-related disclosure standards will be amongst the first form of regulation while sustainability legislation may take the next two to three years to formalise.

What do you do to make sure you have a social licence to operate?

Ethical business trading and responsible profit-making are key. There should be consequences for greenwashing. The ultimate goal is a deeply embedded sustainability-strategic culture. When it has been successfully embedded throughout the business, you will no longer see sustainability separately: it will just be the way that the company carries out its business.

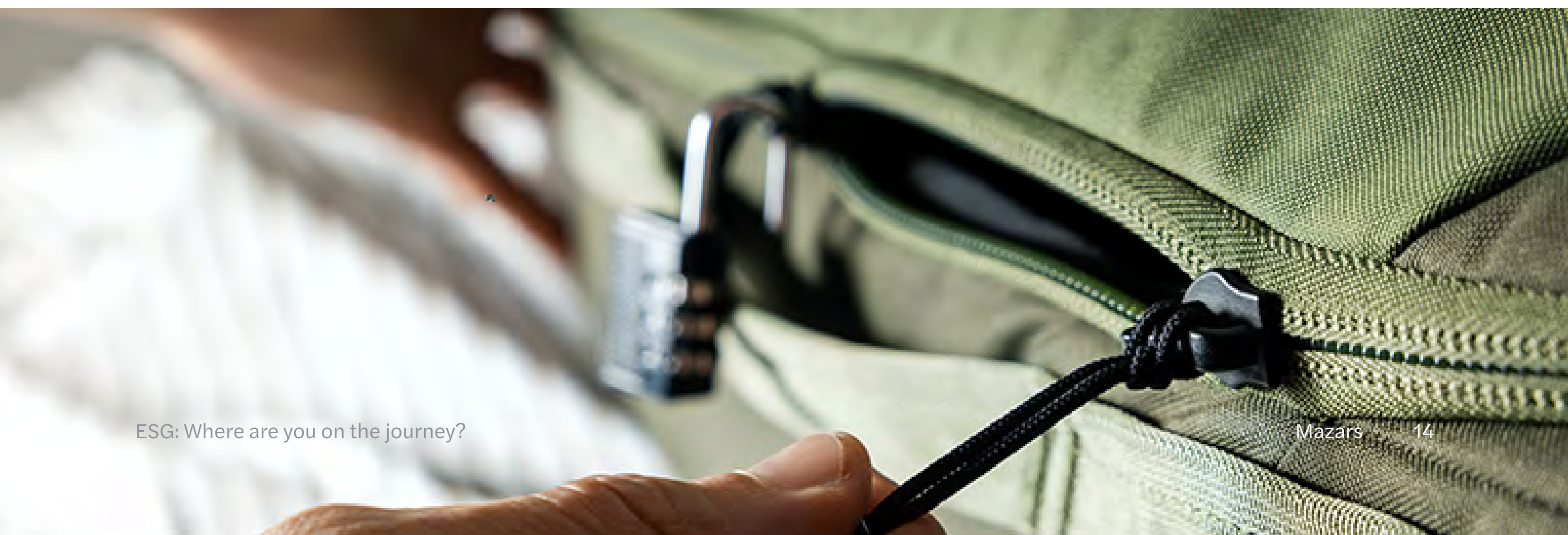
A continuous barrier in the mind is the cost factor. The perception of high costs is a real limitation on progress. The CFO will look at it from a single materiality impact perspective. It's important to articulate the impact: you need to map out how it will affect the bottom line and share case studies on how ESG improves performance. Success ultimately hinges on how well you workshop the materiality question at an executive level, with both internal and external stakeholders, and define the priorities. The prioritised material topics will allow you to create a solution with measurable outcomes. Only then do you get to the conversation about key performance indicators (KPIs) at an employee level.

When you define oversight, you need to know what progress and success look like. Which metrics should we achieve to know that we are successful?

Listed enterprises are rated by ESG agencies; this provides an external benchmark. Big privately owned businesses do not get that scrutiny or measurement, and so, the critical factor is on risk management and the business case for sustainability.

Operational aspects of implementing ESG reporting rely heavily on stakeholder engagement. When internal teams are engaged and have an understanding and contribution on the strategy, then ESG integration achieves better success.

A critical success factor is the need to be clear that a sustainability strategy is a business strategy which requires an executive mandate and buy-in. An internal business champion is key. This champion needs to report to the executives, otherwise the strategy risks falling flat and being reduced to initiatives, reporting or a public relations exercise.



Packing your bags for the journey ahead

Interview with Dr. İzel Levi Coşkun, Partner, Mazars, Turkey

In Turkey, companies are very confused about the changes in standards. Sentiment is even more difficult because of the high inflation rate combined with other problems. So, unfortunately, sustainability is not a priority for many businesses. And it is difficult to convince companies that we have no way out, that their future is hazy if they do not adhere to some standards and try to make changes. But Turkey does a lot of business with Europe, and so the EU's "Green Deal" forces them to comply with the rules.

Some people are confused about which standards to adopt: science-based targets, GRI metrics, integrated reporting and so on. You can combine different methodologies in your reporting. We work together with our clients to try to find the KPIs that are most useful for them, the standards that are best for them to use, and discuss step by step how to do it.

Top tips for embedding sustainability in your business:

- Be sincere. Adherence to standards isn't enough. The leadership team needs to genuinely embrace sustainability in their business strategy.
- Keep up with regulatory developments. Make sure you stay up to date and understand how they impact you and your business.
- Take a holistic approach. I recommend creating a sustainability committee with representatives from different departments at a senior level: HR, marketing, IT, procurement, and top management. A report is just a tool, it gives guidance. You need to find what fits your company. Non-financial KPIs are the most important. If you don't measure, you don't control.
- Remember, every journey is unique. How you combine your operations with ESG requirements will depend on your individual business. Embed sustainability based on your unique needs.

The path to business opportunities

Increasingly, sustainability strategy is business strategy. Get it right, and there are significant benefits to be reaped. ESG compliance is just a by-product: the end products include greater operating efficiency and lower costs.

The path to business opportunities

ESG is here to stay, and the risks of non-compliance are enormous. As we noted earlier, companies that do not follow the rules, either on the environment or on social issues, including human rights, will likely be frozen out of business altogether. Yet, adopting ESG should not be seen as a burden. It also brings opportunity. Business benefits from ESG include:

- **Environmental.** You produce more from less and reduce energy consumption.
- **Social.** Greater staff retention and improved work quality.
- **Overall.** Brand building and competitive advantage. You attract the best recruits, reduce business risks and build more resilient supply chains

Below, Richard Karmel, Partner, Mazars shares his thoughts on the business case for ESG.

Making the business case

If companies wanted to do the right thing just for the sake of doing the right thing, they would have done it ages ago. They haven't. It is happening now because of consumer demand, legislation and because it makes good business sense. Many companies struggle to understand the business case and it is important to articulate it for them.

First, if a company approaches ESG as a compliance issue, it will be viewed as a cost. If they approach ESG as an investment, they are likely to generate a return. It's a mindset shift. For example, if you use less energy to produce more, your profits rise. Simple measures like installing LED lights generate immediate returns. Companies need to review their wider strategy through an ESG lens and identify areas to be addressed.

The social part can be defined succinctly, as respect for the individual. If a company respects the individual, within the organisation, in the communities in which it operates, and within its supply chain, the result should be a positive culture. This leads to greater staff retention and more discretionary effort, which in turn enhances profitability. If people feel respected and enjoy working, if workers trust the company and know-how is retained, people stay longer and the best new recruits are attracted to the organisation.

While environmental impacts are more straightforward to measure with digital tools, assessing impacts on the social side requires greater effort, hence why the actions on the social side have been seen to lag those of the environmental side. However, the benefits of generating a culture of respect and of doing no harm to people will position the company well in today's society and for the longer term.

Organisations need to start with a risk assessment with a difference: don't look immediately at risks to the business. Consider where the business activities can potentially negatively impact the environment and people – that is, risks to externalities. Those that are most severe and likely, will converge back as risks to the business and are the areas which the company should prioritise.

Sustainability is not a separate part of the business; it is changing the way companies do business. Upfront investment will be repaid both tangibly and intangibly. We know there are quick wins; but the real benefit is setting up the company for a more sustainable and resilient future.

ESG across sectors

Different sectors of the economy face a range of common challenges in implementing ESG rules, but many of them have their own specific challenges – and are in different places on their sustainability journeys. Here, we look at three sectors that are ahead of many others: consumer goods, energy and finance. These sectors have had to be out front because they are among the most exposed to ESG-related societal pressures. And in the process, they have learned some lessons that are applicable to many others outside their sectors.

ESG across sectors

Consumer sector: building trust and staying credible

The consumer sector including retail has many topics affected by ESG. There are operational issues of transportation and logistics, packaging, waste, and energy, to name just a few – as well as major social issues, including workers receiving a living wage and concerns about exploitation and modern slavery. If you go into fashion and luxury, there may be questions about human rights: where does the diamond in that ring comes from? Does the plant that made your coat look after its workers? Every segment has its own questions.

One aspect of ESG in the consumer sector worth noting is the contradictions among consumers themselves. Clients are eager to be more eco-friendly and put pressure on companies to reorganise their value chains, for example with more locally produced goods. But at the same time, they want fast delivery at home – and the faster the better. They say they don't want packaging, but during the first year of the Covid lockdowns, plastic waste went up by 30% because people had goods delivered to them at home.

In retail, the pandemic accelerated e-commerce and changed the way people sell. Those huge digital servers that drive e-commerice are not very environmentally friendly. And what about that last mile delivery to the final client? It's more complicated from an environmental and social standpoint, all these people from the gig economy on their bikes and scooters delivering in cities.

Luxury has already been focusing on ESG for quite a while, but there is still room to improve. One luxury brand did a runway show in a remote desert spot, which went in the opposite direction of the trend. In fast fashion, waste is a big question, especially when you see images of waste being dumped in Africa.

Consumer companies are trying to improve and are quite convinced that they need to change. Some of my clients are completely rethinking their value chain. They are looking to reduce transportation or change it, in other words, avoid using planes full of goods to fly from one continent to another. They are looking at how and where they source and have warehouses that are smaller and closer to the end-customer. Some only manufacture a product when the order is taken. That reduces waste. Others are recycling their own goods.

Many consumer companies use green in their marketing. If you are in the consumer space, you are selling to individuals and you have to go there – it's not an option. If you don't do it, then you're the bad guy. But the consumer is not stupid: they can tell who is greenwashing and who is making real efforts. As a company, you have to build credibility over many years.

Isabelle Massa
Partner, Head of Consumer Sector, Mazars

ESG across sectors

Energy: Long-term thinking, short-term data requirements

You need to remember that the energy sector is an industry with an infrastructure business model that thinks in the very long term. When you invest in a power plant it is for 40 to 50 years. All companies in the energy sector including the oil and gas majors started the energy transition some years ago. There is a lot of pressure from regulators and the public. Investors are also starting to push – they want to have a greener portfolio.

In Europe, if the industry is to reach 2030 targets set for renewable energy, it will need to multiply capacity building by four. We are already very late getting on target and will need to accelerate.

With the Ukrainian crisis, we also realised that energy is the key to doing everything, from mobility to construction. Security of energy supply is key - and we forgot that in rich countries. Because of the war, we have to take urgent energy supply decisions, some of which may go against climate. But you cannot increase renewable capacities just like that. You need money and regulation to do that, and time. For example, it can take several years to obtain permits for a wind farm. We'll need to simplify the rules to get back on track to meet the renewables targets.

For energy companies in Europe, the EU's green taxonomy is a burden because it is very detailed and you need to find data that was not needed before –KPIs for sales, capital expenditure and operating spending that corresponds to emissions reduction or adaptation to a warmer world. Imagine how hard it is to screen the full accounts for that. The second step is to align with the targets. Tracking the data, structuring it and then disclosing it to the market is quite painful and will cost a lot to build.

At the same time, the new regulation can be a new business opportunity, a way to develop new sustainable energy businesses with enlarged services and to reach investors by having a more transparent ESG strategy.

The green taxonomy is a constraint, but we need to live with it – and at the end of the day, we need to increase low carbon energy capacities, such as renewables.

Mathieu Mougard
Partner, Mazars

ESG across sectors

Finance: Measuring risk, evaluating the opportunity

ESG in financial services is, for now, primarily seen and treated as a risk topic; to what extent are firms exposed to ESG-related risks and what do they need to do to assess, measure and mitigate those risks? But ESG has started to emerge as an area of opportunity. Financial institutions, large and small, have begun to identify business possibilities behind the ESG movement. They also feel the need to stay relevant in the current political and economic context and sense the necessity to address expectations that they should contribute to the transition to a low-carbon and fairer economy.

In terms of progress regarding ESG risk management, banks and insurers have been very busy, focusing mainly on climate change, figuring out how to embed this new risk driver, setting governance mechanisms, building capabilities and performing scenario analysis. More advanced institutions have been factoring climate change into their quantitative modelling and analysis and running climate stress scenarios and calculations. Barriers to progress still relate to data, and firms should at least have an approach to address gaps. They must be able to develop – and explain – assumptions, judgements and proxies and identify remaining areas of uncertainty.

Turning to the opportunities that financial institutions can look to seize, it is time for them to be actively involved and contribute to the delivery of ESG goals for the benefit of their customers, their stakeholders and society at large. We have seen many alliances and forums being created and institutions announcing they are signatories or members. Many ESG-related products across retail, commercial and investment banking, as well as insurance, are being launched. Sustainability-linked debt instruments are booming.

It is appreciated that the accumulation of regulatory requirements over the past decade has made compliance a very costly component of managing a financial institution. Making progress in the area of embedding ESG to achieve compliance with implemented and forthcoming regulatory standards is not straightforward from a budgetary perspective. However, all regulated financial institutions are expected to adequately manage the risks they are currently exposed to or might become exposed to and set an appropriate amount of capital aside. ESG should be treated as a risk driver that has the potential to significantly impact all firms' risk profiles.

In conclusion, the overall journey for the financial sector to reinvent itself has started. Achieving regulatory compliance should be seen as the minimum, and firms must, of course, pass that hurdle first. But I see there is strong interest among boards and management in understanding best practices, staying on track with trends and market expectations and starting to explore business opportunities.

Phuong Gomard
Partner, Mazars

Full speed ahead: advancing on your journey

Some companies, especially the largest multinationals, are quite far advanced on their ESG journeys, while many others are just starting out. Regardless of where they are, all companies still have things to learn and a way to go on their journey. Here are our top tips as you move forward.

Full speed ahead: advancing on your journey

Keeping pace with sustainability will require ongoing investment, but it will deliver value to all. To conclude, here are seven takeaways for companies as they set off on the next stage of their own sustainability journey.

1. **Don't be embarrassed by what you don't know.** While some companies are ahead of their peers in adopting sustainability practices, many are just starting. Take manageable and ideally stretching steps. Use your peer group: increasingly, companies are working together with peers in their sectors to adapt to the changing requirements. There's plenty of information available out there. Already, looking at best-in-class sustainability reports can get you off to a good start.
2. **Get internal buy-in.** The full board needs to participate in the kick-off meeting, not just the CEO and the marketing team. There are so many elements to ESG: it covers the whole business. Everyone needs to be there, on the same page from the very start.
3. **Test it out.** Once you have an appreciation of how ESG will change the way you work, test it on your investors, staff, and suppliers. This enables you to check that you have the right priorities before you hard-bake your strategy; plus, it will demonstrate your commitment to sustainability and to a listening approach.
4. **Understand your supply chain.** Some of the largest consumer companies have learned the hard way that they need to understand how their supply chain works in detail, but many other companies don't have a clear idea. More regulation is coming after the CSRD that will require heightened due diligence, not just of Scope 3 emissions but also of your human rights and other responsibilities through your supply chain. Make sure you're ready.
5. **If you haven't got a sustainability strategy you haven't got a sustainable business.** You can no longer fake it. Given the far more rigorous regulations introduced in 2022 and those coming soon, 'greenwishing' will no longer work. You will need substantive and measurable change, not just good marketing.
6. **Seize the opportunity.** If you are ahead of others with your energy strategy, for example, you will often pay less – which can be a differentiator, depending on the sector. Many banks now have more funds allocated to sustainability than they can find clients for, which spells an opportunity for those able to tap into them. In general, there are lots of areas where it is advantageous to be a first well-respected innovator. Don't wait. Act now.
7. **Don't be too hard on yourself – even the largest companies are still finding their way.** Nobody says that becoming a fully ESG-compliant company is easy. Large global companies have the resources that can help speed up their journey, and many are already quite far advanced. They have to be. They operate in the glare of regulatory and public scrutiny. Yet even the biggest and most sophisticated multinationals struggle with the massive new data requirements – and with ensuring that every link in their supply chains is up to speed.

Avoid getting overwhelmed by requirements and place the focus on what is material to your ESG journey.

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