How **ESG reporting** can make a difference for your company

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Environmental and social changes have made companies realise that they also need to renew their business models. But how do you go about making this renewal happen? And how do you measure and manage the transition to greater sustainability? The answers are not always obvious.

That's why we've set out the principles of **sustainability or ESG reporting** for companies. ESG reporting is a tool to help companies understand their impact on the different dimensions of sustainable development and the impact of sustainable development on their business.

ESG refers to the three pillars of ESG Reporting: the environment, social and governance. This form of reporting allows a company to communicate the social and environmental impact of its activities and the way in which it is managed.

Large companies, becoming increasingly convinced of the usefulness of monitoring and publishing their ESG performance, are starting to do this. But as plenty of significant benefits and opportunities exist for SMEs, more and more of them will also take that step in the near future, for themselves and their stakeholders. Before you begin, it's important to have a clear understanding of ESG reporting and its different aspects. This brochure provides an overview.

WHAT ARE THE BENEFITS OF ESG REPORTING?

Showing commitment

Commitment to sustainability makes SMEs attractive to investors as they attach increasing importance to sustainability. The same applies to customers and to current and future employees.

SMEs that show respect for the environment and society in their organisation and production process are also more likely to attract new talent. After all, companies aware of their social responsibility and investing in the necessary resources for that purpose are often the ones considered attractive.

ESG monitoring can also reduce the risk of the company becoming embroiled in controversies that could damage its reputation.

Useful tool for internal use

Because of the additional transparency it provides, ESG reporting has several advantages for the company's internal management. Opportunities can surface, including short- and long-term cost reduction through using new technologies or introducing circular principles such as leasing or recycling.

It's also easier for companies that measure and track their ESG performance to compare themselves with other companies. This gives them a better understanding of their own competitiveness and how to boost it.

ESG is more than just the environment. From a strategic point of view, for example, it's also important to ensure more diversity in the different layers of a company. A diverse team is more innovative, makes better decisions than a homogeneous team, and produces better business results. An inclusive workplace also creates a collegial atmosphere that usually reduces staff turnover.

Meeting stakeholder demand for sustainability information

SMEs are part of a value chain, with suppliers and business customers who will also increasingly request ESG information from their side. Other stakeholders will also take account of the SME's ESG performance. These include financial institutions that will request sustainability information as part of their investment and financing activities.

A company demonstrating that it is well prepared and resilient to factors such as the effects of climate change, the tightening legal framework around environmental issues, and customers' changing expectations will have more stable future prospects. This makes this business less risky and more attractive to lenders and investors.
Government agencies will also increasingly prioritise sustainability conditions for subsidies and concessions.

SMEs that practise ESG reporting are therefore ahead of the curve and better prepared for these information requirements.

Some examples of information from an ESG report

The information in an ESG report reflects the company's current situation (actions, results, etc.) and its intended direction of travel. Examples of information from an ESG report are listed below.

These data are considered priorities in the short and medium term, both for the company itself and for its stakeholders (business customers, financial institutions, government, and so forth).

Business owners should start measuring and reporting these data as soon as possible. This can be done both quantitatively/indicatively and qualitatively/narratively.

The relevance and importance of these data depend on the size, sector, location and complexity of the business chain.

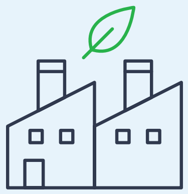
Company's overall approach and sustainability strategy

- The Paris Agreement on climate change aims to limit global warming to 1.5°C. Does the company have a transition strategy to bring its business model into line with this target?
- Has the company identified its own ESG risks and opportunities? If so, what are they?
- Is the company aware of the risk of labour or human rights violations in its supply chain?
- and so forth

Reporting

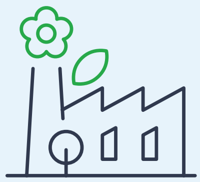
- Does the company report on its sustainability policy?
  Does it follow a specific standard for this purpose?
- Does it have any environmental, social or governance certificates?
- and so forth

Buildings and real estate



- What is the energy performance (EPC score) of the commercial buildings?
- What carbon emissions do the real estate produce?
- and so forth

Company activities



- What are the company's principal and secondary activities (NACE code[1]) ?
- Are sustainable goods being produced? If so, what are they?
- Are the business activities in line with the European taxonomy[2] (% capital expenditure, % operating costs, % turnover)?
- and so forth

Energy consumption and carbon emissions

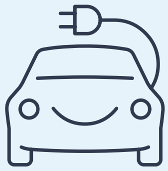
- What is the company's total energy consumption (broken down into renewable[3] and non-renewable energy)?
- Does the company have plans and/or targets to reduce carbon emissions or its reliance on non-renewable energy? If so, what are they?
- and so forth

Capital investment

- What is the amount and nature of capital expenditure and investment aimed at making business processes greener?
- and so forth

[1] The NACE code is an EU classification of economic sectors and activities.
[2] The EU taxonomy is a classification system that establishes a list of environmentally sustainable economic activities.
[3] Renewable energy is the energy we produce from the earth's natural resources, such as the sun, water and wind. These sources are called renewable because they cannot be exhausted.

Vehicle fleet



- How big is the vehicle fleet (list of the number of company vehicles by type: electric/hybrid/traditional)?
- What carbon emissions do the vehicles produce?
- and so forth

Risk management

Which of the following ESG risks are relevant to the company and for which risks has a policy been developed or specific measures implemented?

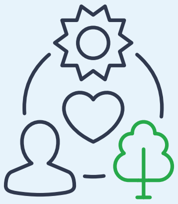
Physical risks such as the impact of prolonged droughts, floods, heat waves, and so forth on business operations.

Transition risks such as the impact of:

- Introducing a carbon tax
- More stringent environmental standards and permits
- Higher customer expectations relating to the sustainability of products and services
- Reputational damage because of involvement in ESG controversies
- Supply chain disruptions

Is the company insured against these risks?

Other relevant sustainability information



- Annual water consumption?
- Waste management: What percentage of waste is recycled?
- Does the company have a policy for these areas:
  - Diversity and anti-discrimination
  - Anti-money laundering
  - Fiscal integrity
  - and so forth?
- Is the company in regular contact with external interest groups such as consumer organisations or NGOs?
- and so forth

ESG REPORTING IS WORTHWHILE

Focused and relevant ESG reporting is an essential tool for companies to manage and monitor their sustainability performance. It is an exercise enabling the company to remain competitive in a fast-changing economy and society.

Transparency about sustainability strategy will become a basic expectation of all kinds of stakeholders. Alongside the usual financial information, the company's ESG information will weigh heavily in financial institutions' credit and investment decisions.

ESG reporting certainly offers more than enough benefits and opportunities to convince every business owner. A thorough ESG report will become a determining factor for a company's strategy both in the short term and definitely in the longer term. However, identifying and reporting on sustainability is relatively new and still a work in progress. For this reason, it's important to take the first step as soon as possible and make ESG reporting a priority. The future starts today.

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More information?

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